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WORLD NEWS

Kosovo massacre may prompt calls for Nato action

A massacre of Kosovan women and children, allegedly committed by special police units, has overshadowed Serbia's announcement of a ceasefire and might add to calls for Nato intervention. Page 3

Schröder makes jobs a priority
German Chancellor Schröder, Germany's chancellor-elect, pledged to take a visible and active role in creating jobs, warning his government would be judged at the next election on its record for cutting unemployment. Page 2

Concern over US defence readiness
The chairman of the US joint chiefs of staff, General Henry Shelton, said the armed forces were showing "increased signs of serious wear," and there was evidence that their long-term health was in jeopardy. Page 3

France cautioned on genetic crops
The European Commission indicated France's decision to delay authorisation for the marketing of a genetically modified maize developed by Switzerland's Novartis might be illegal under European Union law.

Possible post for Israeli hardliner
Benjamin Netanyahu, the Israeli prime minister, may offer hardliner Ariel Sharon the post of foreign minister in a bid to buy off Jewish settlers who are threatening to topple the government. Page 4

Japan ponders N Korea funding
Japan is ready to consider lifting its freeze on funds for building light-water nuclear reactors in North Korea, foreign minister Masahiko Komura said. Page 6

Cognac growers in tax protest
Cognac grape growers blocked roads in the region to demand state aid and tax cuts to help them cope with declining sales.

Kyrgyzstan to join WTO
Kyrgyzstan will be admitted to the World Trade Organisation on October 14, becoming the first ex-Soviet nation to join the trading group.

Albanians choose successor
Albania's ruling Socialistists nominated Pandell Majko, the party's secretary-general, to succeed Fatos Nano as prime minister heading a five-party coalition. Page 3

Moscow faces rabies threat
Some 80 rabid animals have been identified in the Moscow region this year, raising fears of an epidemic of the kind last seen in the chaotic period after the second world war.

EU and Africa launch trade talks
The European Union and 71 African, Caribbean and Pacific countries today launch negotiations on a sweeping shake-up of the Lomé Convention, their 23-year-old trade-and-aid agreement. Page 5

Rethink sought on debt relief
The framework for poor country debt relief put in place by the World Bank and International Monetary Fund two years ago "needs to be substantially improved", according to Commonwealth officials. Page 4; Strains showing, Page 13

Viewers balk at hamster death
A television advertisement for Levi's jeans featuring the death of a hamster set a British record for viewer complaints.

BUSINESS NEWS

Goldman Sachs appoints 160 new managing directors

Goldman Sachs, the investment bank, has appointed 160 new managing directors who will be eligible for the firm's highly prized partnerships, due to be handed out next month. The move comes as the firm seeks to retain staff. Page 15

EFFAS, the European Federation of Financial Analysts Societies, has ordered members to quote investment fund values and performance numbers in euros from January 1 when European monetary union is launched. Barry Riley, Page 15

Luigi Fausti, chairman of Banca Commerciale Italiana, was forced to step down in a fierce boardroom showdown engineered by Mediobanca, the Milan investment bank trying to forge a merger between BCI and Banca di Roma. Page 15

Daiwa Securities, Japan's second-largest broker, is to cut at least 800 of its 1,800 overseas staff before April as part of a large scale-back of its international operations. Page 15

Metra, the Finnish engineering, ceramics and steel group, warned that Asian problems and cost overruns would undermine profits at Wärtsilä NSD, its largest division. Page 20

Cannock in Australia may be forced to suspend production after last week's explosion at a gas processing plant in Victoria state crippled the region's industry. Page 16

Ericsson, the Swedish telecoms group, announced the departure of Infocore Systems divisional director Anders Igel. His job is expected to disappear under restructuring. Page 18

Alitalia, the Italian national airline, showed further signs of a turnaround which started eight months ago with an 83 per cent increase in flying first-half profits. Page 18

FöreningsSparbanken, the Swedish lender, lifted its stake in Hansabank, Estonia's largest bank, to almost 50 per cent after buying out a minority stake held by Swedish rival SEB. Page 18

UBS's two top executives moved to shore up morale at the embattled bank as Switzerland's chief banking regulator questioned its risk management and controls. Page 18

World shipping may need to raise up to \$160bn over five years to finance the purchase of vessels, according to Drewry Shipping Consultants. Page 5

Offwell has narrowed its pre-tax loss for the first half year to £89bn (\$53m) from the £34bn posted for the same period of 1997. Page 18

Embraer, the Brazilian aircraft manufacturer, is in talks with foreign manufacturers about a possible partnership involving the sale of a minority stake. Page 17

Philips, the Dutch electronics group, agreed the sale of part of its components activities for around £1bn (\$500m). Page 18

Euro Prices

A comprehensive statistical guide to the euro currency zone, covering foreign exchange, bond and equity markets. Page 23

Fed reduces interest rates in response to global turmoil

Quarter-point cut first for three years but markets remain largely unmoved

By Gerard Baker in Washington

The US Federal Reserve yesterday nudged interest rates lower for the first time in nearly three years in response to the deepening international financial crisis.

The central bank's open market committee reduced the target for its Federal funds rate - its main lending rate - by a quarter of one per cent to 5.25 per cent.

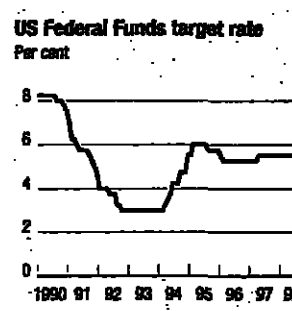
The Fed said the action had been taken "to cushion the effects on prospective economic growth in the United States of increasing weakness in foreign economies". It added that policymakers were concerned about tightening credit conditions in the United States.

The cut marked a shift in Fed policy for the first time in a year. Interest rates were last changed in March 1997, when the central bank raised the Fed funds rate in a pre-emptive strike against inflationary pressures. The last time the Fed lowered rates was in early 1996.

US stocks initially reacted negatively to the news, while bond prices rose. Investors had been hoping for a bigger cut in recognition of the severity of the global economic crisis. The Dow Jones Industrial Average was down about 60 points on the day about an hour before the close.

But a bigger interest rate move would have been out of line with past practice and might have signalled to the markets that policymakers had become alarmed about international economic conditions. When the Fed has changed the direction of its policy in the last few years it has tended to take it slowly, with just a quarter-point move.

Another factor that restrained the Fed was the solid growth of the US economy. In the first six months of 1998, the economy expanded at an annual rate of more than 3 per cent, comfortably above what most economists regard as a sustainable pace. In



the last few months, the pace seems to have cooled as international conditions have deteriorated but output continues to expand.

A cut in short-term interest rates had been widely expected following strong hints last week by Alan Greenspan, the Fed chairman, that the international turmoil was placing greater pressure than ever on US financial markets.

Yesterday the latest sign of weaker economic conditions emerged with a report that indicated consumer confidence fell sharply this month. The Conference Board, an independent research group, said its main index of confidence fell by seven points in September, the largest one-month drop since January.

Wolfgang Münchau adds: In Europe, the Fed's move will put pressure on Italy, Spain, Portugal and Ireland to cut their short-term rates to the level of France and Germany, 3.3 per cent, but the governing council of Germany's Bundesbank is expected to leave interest rates unchanged at its regular meeting tomorrow.

Asenior German central banker hinted this week the European Central Bank might have to cut interest rates next year, if the uncertainty in international financial markets persists.

Editorial Comment, Page 13
Lex, Page 14



Malaysia's sacked deputy prime minister Anwar Ibrahim, clearly showing a black eye, leaves a Kuala Lumpur court yesterday after pleading not guilty to charges of corruption and illegal sexual acts. He claims he was beaten unconscious after being arrested on September 20. Report, Page 14

China orders companies to repatriate dollar holdings

By James Kyngs in Beijing

China yesterday ordered local enterprises to repatriate by tomorrow billions of US dollars they are believed to hold illegally, signalling an intensification in the country's battle against an alarming flight of capital.

The order was part of a series of measures China was taking to bolster increasingly fragile confidence in its currency, the renminbi, and the wider financial system.

Some of the measures, such as a planned crackdown on illegal activities among Chinese import agents, could significantly disrupt the operations of foreign companies that export to China through such agents. Other restrictions on foreign companies borrowing in renminbi, which were also announced yesterday, might hamper the inflow of foreign investment, executives and analysts said.

Wu Xiaoling, the director-general of the State Administration for Foreign Exchange, acknowledged as she announced the measures that they would

"inconvenience" foreign investors, but stressed that China remained committed to its "open door" policy.

Ms Wu warned that Chinese companies that failed to comply with the order on repatriating funds would be punished, but she did not say how.

It was unclear how much Chinese companies have deposited overseas but an official newspaper said they held about \$20bn in foreign currency.

Companies use a number of schemes to get round a prohibition on sending foreign currency offshore for anything but trade purposes. The most common is faking customs documents.

Analysts said a repatriation of several billion dollars by tomorrow could have an impact on Hong Kong, where much of the money is believed to be kept.

China hopes that the measures will ease market pressure on the government to devalue the renminbi by curbing capital flight and boosting domestic foreign exchange reserves.

Although the renminbi is officially fixed at about RMB8.28 to one US dollar, the currency's

black market rate is now at its lowest level this year.

Ms Wu yesterday appeared to confirm a shifting stance on the issue of devaluation. Asked if China promised not to devalue in 1999, she said: "No one can promise whether a currency will be devalued or not."

The extent of China's capital flight cannot be accurately measured but indications are that it is considerable. Despite a trade surplus so far this year of \$31.3bn and foreign investment inflows of \$27bn, the country's \$140bn in foreign currency reserves - viewed in China as an indication of the country's ability to withstand pressure to devalue - has hardly risen since the start of the year.

The immobile foreign reserves figure has been a cause for disquiet among Chinese companies and individuals, raising fears that Beijing would be forced to devalue despite its repeated pledges that it would not do so this year.

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Small groups told to reveal accounts

By Jim Kelly

Germany's secretive small and medium-sized companies - the *Mittelstand* - will be obliged to open their accounts to public view following a decision by the European Court of Justice yesterday.

It is the result of a 15-year campaign waged by businesses based in other European Union countries, and will force hundreds of thousands of *Mittelstand* groups to fall into line with the rest of the EU.

The German government must devise "stronger sanctions" to force companies to register their accounts publicly. The court was told only 10-20 per cent of *Mittelstand* companies did so as there were no penalties for breaking the rules.

Business organisations around Europe were angry members could not examine the accounts of many German companies when making business decisions. The court said the German government had "failed to fulfil its obligations" under the European directives and provide for "appropriate penalties" to be imposed on companies if they did not register. It ordered Bonn to pay the costs of the action brought by the European Commission.

EU business leaders were surprised and delighted by a verdict that overturned the opinion of the Advocate General: "They had dragged their feet for years while

they had access to accounts everywhere else," said one. Only around 10 per cent of the 600,000 companies in Germany obliged to publish their accounts do so, compared with 80 per cent of those in the UK and France and 90 per cent of those in Denmark.

Germany's *Mittelstand* lobby had effectively blocked change for 15 years, saying disclosure would give away sensitive information to competitors and reveal directors' earnings.

"The only people standing to benefit from the publication of my corporate accounts would be my competitors," said a computer dealer in Munich before the judgement.

Others said compulsory publication had not stopped a string of corporate scandals, such as that at Polly Peck, a collapsed UK conglomerate.

Under present rules in Germany, only narrowly defined interested groups such as creditors and works councils can oblige companies to register accounts, and then only by going to court.

The German government argued it had enforced EU directives by giving interested parties access to the accounts. Failure to comply with the verdict could lead to a fine. Officials expect private legal actions to be launched by groups still frustrated by lack of access to the accounts of German companies.

WORLD MARKETS

STOCK MARKET INDICES			
New York: Dow Jones Ind	8116.30	(-7.48)	
NASDAQ Composite	1738.74	(-0.48)	
Europe and Far East			
UK: FTSE 100	5337.05	(-0.58)	
DAX	4578.27	(-75.87)	
Nikkei	15186.7	(-152)	
US: S&P 500	1387.45	(-17.34)	
COMMODITY PRICES			
Oil: WTI	18.42	(-0.12)	
Gold: COMEX	360.00	(-0.10)	
Platinum: COMEX	800.00	(-10.00)	
Silver: COMEX	10.00	(-0.05)	
Copper: COMEX	1.50	(-0.01)	
Aluminum: COMEX	1.20	(-0.01)	
Zinc: COMEX	0.80	(-0.01)	
Nickel: COMEX	0.60	(-0.01)	
Lead: COMEX	0.40	(-0.01)	
Steel: COMEX	0.30	(-0.01)	
Iron Ore: COMEX	0.20	(-0.01)	
Coal: COMEX	0.10	(-0.01)	
Gas: COMEX	0.05	(-0.01)	
Heating Oil: COMEX	0.02	(-0.01)	
Crude Oil: COMEX	0.01	(-0.01)	

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CURRENCY EXCHANGE RATES			
US Dollar	1.66	(-0.01)	
Japanese Yen	160.00	(-0.05)	
Swiss Franc	1.75	(-0.01)	
German Mark	1.93	(-0.01)	
French Franc	6.55	(-0.01)	
Italian Lira	2036	(-10)	
Spanish Peseta	166.64	(-1.66)	
Portuguese Escudo	200.48	(-2.00)	
Irish Punt	0.78	(-0.01)	
Scottish Pound	0.70	(-0.01)	
Welsh Pound	0.70	(-0.01)	
Malaysian Ringgit	3.40	(-0.01)	
Singapore Dollar	1.36	(-0.01)	
Thai Baht	55.00	(-0.01)	
Indonesian Rupiah	1500.00	(-15.00)	
Philippine Peso	46.00	(-0.01)	
Malayian Ringgit	3.40	(-0.01)	
Singapore Dollar	1.36	(-0.01)	
Thai Baht	55.00	(-0.01)	
Indonesian Rupiah	1500.00	(-15.00)	
Philippine Peso	46.00	(-0.01)	

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WORLD NEWS

EUROPE

French embrace Schröder before he can turn his head

The speed with which Chirac moved to issue the chancellor-elect with an invitation to visit Paris speaks volumes about concerns that he might be tempted in directions less in keeping with traditional Franco-German relations, writes **Robert Graham**

There could scarcely be a more clear-cut symbol of the importance of the Franco-German alliance than the visit to Paris today of Gerhard Schröder even before he has formed Germany's new Social Democratic-led government in the wake of his triumph in the country's elections on Sunday.

The ready response from the incoming German chancellor to a rapid invitation from President Jacques Chirac late on Sunday underlines the mutual need to establish a proper working relationship to ensure the political and economic stability of the European Union.

However, the French are the ones forcing the pace. The alacrity of President Chirac's invitation is an eloquent comment on Paris's concern that the new German leader might be tempted to make subtle shifts of emphasis in policy to the prejudice of France.

French officials see Mr Schröder being tempted in three possible directions — turning Germany more in on itself, a foreign policy focus that looks further to the east with EU enlargement, and a move to bring the UK more into a triangular partnership of the Big Three European nations. Any one of these, or any combination, could reduce France's current

weight in Europe, especially if Germany is more assertive of its own interests.

At the level of French domestic politics, the departure of Chancellor Helmut Kohl heralds an awkward period of adjustment in the co-habitation between President Chirac and Mr Lionel Jospin, the prime minister. Foreign policy is the constitutional responsibility of the French president, and over the years the Franco-German relationship has been most subject to personal con-

Sauzay, a former interpreter for the late President François Mitterrand during many Franco-German summits, to co-ordinate policies with Mr Schröder's headquarters during the election campaign. Ms Sauzay is now co-ordinating Franco-German relations with Mr Schröder.

By contrast President Chirac has not met Mr Schröder and carries conservative nationalist ideological baggage. His approach to problems has been often confrontational and is regarded to

unusual step of penning a commentary to both Le Figaro, the French newspaper, and the Frankfurter Allgemeine Zeitung, Germany's most influential paper, yesterday in which he rejected the idea that the end of the cold war had removed the rationale for the Franco-German alliance formalised by treaty since 1963. "The continued construction of Europe is only possible with a solid and dynamic Franco-German relationship," he wrote.

Implicit in such comments is the realisation that the changeover in Bonn comes at a time when Franco-German relations have stagnated. "It has always been a marriage of reason not love," observed one official. Thus, rather like a long-married couple, they have become more easily irritable, less willing to make concessions to each other with the years.

At the last bi-annual Franco-German summit in Avignon, the two sides had little to say in common and the coming of the German election clearly held back any initiative.

Matters have been so uncertain that no date was fixed before the election for the next visit in Germany later this year.

The combination of drift and the wait for the electoral outcome has tended to accentuate the differences



Schröder met Jospin (left) during a visit to Paris in July. AP

rather than the points of convergence. The differences range from political control over the euro, attitudes to NATO and the emphasis on enlargement as well as sensitive domestic topics such as reform of the Common Agricultural Policy and the size of Germany's EU budget contribution.

In the coming weeks the French will be interested in finding new areas of convergence as well as discussing how more solid foundations can be given to the alliance.

These could include a new institutional framework for the alliance and ways to make the relationship less "top-down" and so prevent French and Germans becoming increasingly indifferent to each other.

The departure of Helmut Kohl heralds an awkward period of adjustment

tact between the French presidency and the German chancellor.

However, Mr Jospin after almost 18 months in government not only feels more confident in foreign affairs but that the euro-zone has enough implications for domestic policy for the prime minister's office also to play a formative role in the new Franco-German relationship. Mr Jospin, though closer to Oskar Lafontaine, the SPD party leader, has hosted Mr Schröder twice during the election campaign and there is a sense of political empathy.

Mr Jospin has also been astute in seconding Brigitte

have unnecessarily antagonised the Germans last year when he championed a French candidate to run the new European Central Bank.

In moving so fast to meet Mr Schröder, President Chirac is thus also seeking to demonstrate he can still orchestrate the Franco-German dialogue. However, the fact that Mr Schröder is devoting the bulk of his time today to Mr Jospin may signal the president is no longer able to hold such primacy. Government officials also point out President Chirac has most to lose if the UK were brought more into the Bonn-Paris axis.

President Chirac took the

BONN CHANGEOVER SPD CHANCELLOR-ELECT UNVEILS NEW STYLE OF GOVERNMENT

German leader vows action over jobs

By Peter Norman in Bonn

Gerhard Schröder, Germany's chancellor-elect, yesterday pledged to take a visible and active role in creating jobs, warning Social Democratic party parliamentarians that his government would be judged at the next election on its record for cutting unemployment.

Unveiling a new style of government, Mr Schröder said Bonn cabinet committees would work with the governments of Germany's federal states to achieve progress on key job-creating initiatives. People's faith in politics would be strengthened if they could see progress on visible projects, he

told a special meeting of old and new SPD MPs in Bonn.

Mr Schröder made clear that he was seeking a different style of politics in Germany. With overtones of the "cool Britannia" concept of Tony Blair, the British prime minister, Mr Schröder said governing should be fun as well as a duty. He wanted to harness the euphoria of Sunday's election victory to push the country forward.

Yesterday's arrival of the old and new MPs in Bonn was reminiscent of the start of a new school year. The 88 SPD newcomers were allocated post boxes and given information packs, passes to the parliament buildings and a much-prized rail pass

allowing free first class travel the length and breadth of Germany.

The newcomers introduced themselves. Some, such as Oskar Lafontaine, the SPD leader, Franz Müntefering, the architect of the victory election campaign, and Mr Schröder himself were celebrities, returning to the Bundestag after years of politicking in Germany's federal states. Others, such as 22-year-old Carsten Schneider of Erfurt, the youngest MP in the new Bundestag, were at the start of their political careers.

Mr Schröder arrived late, after aircraft trouble in Hanover. The delay left the normally voluble Mr Lafontaine

temporarily lost for words until, to general surprise, he launched into a homily on the possible impact of US monetary policy on the work of SPD MPs in Bonn.

Still basking in the glow of Sunday's triumph, the SPD broke with tradition and allowed the press into the first part of its meeting. There was no such transparency 100 metres away when MPs of Helmut Kohl's Christian Democratic Union and the Bavarian Christian Social Union gathered in the wake of their worst election defeat since 1949. In addition to information packs and rail passes, new CDU/CSU MPs were given the job resumé of parliamentary

support staff laid off since Sunday, when 50 CDU/CSU MPs lost their seats.

The CDU moved swiftly to prevent a power vacuum at the top following Mr Kohl's decision to step down as party chairman at a congress on November 7. Mr Kohl announced Wolfgang Schäuble, wheelchair-bound leader of the CDU/CSU MPs, would also be CDU leader, amid expectations that the congress will give the plan overwhelming support.

In Munich, Edmund Stoiber, the premier of Bavaria, confirmed he would seek election as CDU leader when Theo Waigel, the outgoing finance minister, steps down early next year.

PDS poll success brings it in from the cold

By Frederick Stüdemann in Berlin

East Germany's former communists, the Party of Democratic Socialism, are poised to take a significant step towards legitimisation following their relatively strong showing in Sunday's general election, which grants the party parliamentary and financial benefits.

As well as nominating a deputy speaker of the Bundestag, the PDS expects to be given the chair of at least one parliamentary committee. The party will also receive federal funding for its think-tank.

These moves — which the PDS sees as further evidence of "normalisation" for a party which, due to its associations with communism, has been ostracised by the mainstream parties — follow the achievement of full parliamentary party status by winning over 5 per cent of the national vote.

In the last parliament the PDS was simply a parliamentary "group" as the party had not won 5 per cent and entered the Bundestag only by winning more than three direct constituency seats, the other criteria for representation.

The outgoing Christian Democratic Union yesterday signalled it might try to overturn a ruling which allows all parties in parliament to nominate at least one deputy speaker, in a bid to exclude the PDS from holding such a post.

At the age of 70, Fred Gebhardt, one of the 35 PDS parliamentarians, will be the oldest member of the Bundestag, and thus as "father of the house" will give the opening speech when parliament reconvenes in late October.

His speech will be an interesting test of whether the arrival of a new government for the first time in 15 years is accompanied with a change in tone towards the former communists.

In 1994 the PDS also had the oldest parliamentarian in Stefan Heym, the novelist. Members of the main parties refused to applaud his speech.

Gregor Gysi, the proposed parliamentary party leader, who has already acquired a national reputation for quick-witted and amusing rhetoric, said the PDS had acquired "a new quality" and would be able to provide a vigorous "leftwing, social pressure" on the Social Democratic government of Gerhard Schröder, the chancellor-elect.

ECONOMIC POLICY 'ALLIANCE FOR WORK' AND TAX CUTS PLAN WILL FORM BASIS FOR COALITION TALKS

Lafontaine holds fire on finance job

By Ralph Atkins in Bonn

Oskar Lafontaine, Social Democrat party (SPD) chairman, has yet to decide if he wants to cash in a pre-election promise by Chancellor-designate Gerhard Schröder, and head the Bonn finance ministry. He has already outlined an economic policy for the incoming government.

In contrast to the supply-side oriented policies of Helmut Kohl's departing government, Mr Lafontaine backs international co-operation to curb excessive financial market speculation and create jobs.

He would seek to boost demand through tax cuts and productivity-oriented wage increases, but insists state finances must be strictly controlled. Mr Schröder would lead an "alliance for jobs", combining the

state, employers and the unions.

The programme will form the basis of coalition talks starting on Friday with the Green party, which will also determine whether Mr Lafontaine becomes finance minister or leader of the SPD's parliamentary party.

As Mr Schröder has this week sought to assume the role on the international stage left vacant by Mr Kohl, he adopted Mr Lafontaine's ideas for a new international financial architecture.

The US dollar and euro would become "stability anchors" in a system, modelled on the 1970s European currency snake, for setting target zones for the main international currencies.

Mr Schröder said Group of Seven meetings of leading industrialised countries should no longer be occa-

sions where "anything and everything" is discussed.

The summits should revert to their original role as international economic policy co-ordination meetings, as envisaged in 1975 by their creator, Helmut Schmidt, Germany's last Social Democratic chancellor.

An incoming SPD-led government would support a Europe-wide job creation initiative, the topic of Mr Schröder's discussions in Paris today. Mr Lafontaine has indicated that that could include leaning on European central banks to loosen monetary policy.

US monetary policy could be "a good example", as Lafontaine said. Dollar weakness had contributed to full employment, and Alan Greenspan, US Federal Reserve chairman, was touting a cut in interest rates

against the backdrop of a difficult world economic climate.

At home, the SPD's tax policy envisages giving domestic demand a "decisive impulse" through cuts worth DM2,500 (\$1,222) a year to a family on average earnings. The basic income tax rate would fall from 25.5 to 21.9 per cent initially, then eventually to 15 per cent; the top rate from 53 to 49 per cent.

Mr Lafontaine wants to ensure public finances are on a solid footing. Cuts would be largely offset by closing tax loopholes and the planned tax package's overall effect would be modest, with total net cuts of about DM10bn.

Mr Lafontaine could create more room for manoeuvre if he stands by his pledge to implement firm government spending curbs. SPD plans

prepared in opposition, call for a "lasting reduction in state borrowing".

Spending growth would be kept "clearly below" growth in nominal gross domestic product. Prior to his election, Mr Schröder insisted that every pledge in the SPD manifesto was "realistic" and that in government all measures would be tested against the yardstick of whether they created jobs.

The SPD would seek to boost Germany's attractiveness as a location for creating jobs by cutting non-wage labour costs. It would fund cuts in state social insurance contributions through an "ecological tax reform". Similar ideas have been floated by the Greens. But the Greens go much further, backing a tripling of petrol prices to DM5 a litre. Mr Schröder will not go so far.

Bank plea to Slovak parties

By Kevin Done and Robert Anderson in Bratislava

Vladimir Masar, governor of the National Bank of Slovakia, urged the country's political leaders to form a new government quickly after last weekend's general election and take action to combat the country's mounting economic problems.

The government's budget deficit is running far in excess of the 1998 target, while the unsustainably large deficit in the balance of payments current account is exerting heavy pressure on the Slovak currency, which financial markets believe to be significantly overvalued.

Ivan Gasparovic, speaker of the Slovak parliament, yesterday called on Vladimir Masar, the prime minister, to make the first attempt to form a new government,

despite the ruling coalition's heavy defeat by an alliance of opposition parties led by the Slovak Democratic Coalition.

Mr Masar's nationalist Movement for a Democratic Slovakia (HZDS), of which Mr Gasparovic is a leading member, narrowly emerged as the largest single party with 27 per cent of the votes and 43 seats. Of its current allies the leftist Association of Slovak Workers failed to win any seats, and together with its other coalition partner, the Slovak National Party, it can muster only 57 seats in the 160-seat parliament.

Leaders of the four opposition groups, which together won 93 seats, have all pledged not to co-operate with Mr Masar but to try to form their own government.

Jozef Migas, leader of the reformed communist Party of the Democratic Left, said yesterday it was "unacceptable" to form a government coalition with Mr Masar's party. "The only alternative for creation of a government is with the current opposition parties."

The HZDS would need the support of the reformed communists to have any hope of continuing in government.

The new government will inherit mounting economic problems, and yesterday the highly illiquid Bratislava stock exchange fell to its lowest level since the bourse was opened in January 1994, with the index falling 4 per cent to close at 101.95.

The central bank governor warned against a devaluation of the Slovak crown as a way of solving the country's economic difficulties.

NEWS DIGEST

NORWEGIAN BUDGET LEAKED

Child support expansion may mean rise in tax

Details leaked of the budget that Norway's government will present to parliament next week have confirmed fears that the minority centre-led coalition is heading for a clash and may be forced to resign.

According to an article in the daily Dagbladet, the government will propose tightening next year's budget by NOK10bn (\$1.3bn) while still allowing NOK2.8bn to expand child support payments to include two-year-olds.

The government is expected to fund these increased expenditures by raising taxes.

Among some of the reported proposals are a 1 percentage point rise in income tax to 29 per cent, removing tax deductions for offshore workers, increasing property tax assessment rates by 10 per cent, and raising fees on electricity, heating oil, and rolling tobacco.

Such a budget would fulfil government promises to support a welfare state. At the same time, it is certain to anger opposition parties and spells trouble for the budget debate, released Valeria Skjold, Oslo.

UKRAINE

Outcry over Nato proposal

Ukrainian parliamentary deputies shouted down the speaker of Russia's parliament yesterday, after he addressed them with a proposal to abandon hopes of joining Nato and form a union with Russia and Belarus.

The hecklers, mainly from the Nationalist Rukh political party but including several from the pro-government Popular Democratic party, forced Genadiy Selsky, speaker of the Duma, to stop his speech.

Leonid Kuchma, Ukraine's president, yesterday said he was "categorically against" forming a "union of three" with Russia and Belarus, as the Russian-Belarus union formed in 1996 had given these countries "nothing". Mr Kuchma did, however, say he was interested in developing further economic relations with both countries. On September 18 he met Boris Yeltsin, the Russian president, to discuss improving trade relations. Charles Clover, Kiev.

SPAIN AND EMU

Budget aims to reduce deficit

Spain's centre-right government yesterday sent parliament its first budget for the era of European economic and monetary union, aiming to reduce its deficit to a level which places it a year ahead of its original convergence plans.

The overall public deficit is set to drop to 1.6 per cent of gross domestic product from 2.1 per cent expected this year. Rodrigo Rato, finance minister, said he would seek a pact with regional administrations to eliminate their share of the deficit — 0.2 per cent of GDP — over the next three years. The government is counting on the economy remaining strong enough to boost revenues by 4.6 per cent next year despite cuts in income tax rates.

Public expenditure is set to rise by 3.6 per cent, with a 9.3 per cent increase for health and 6.5 per cent for education, the biggest-spending departments.

Tax cuts are expected to generate enough household spending to contribute 0.5 percentage points to growth, officially forecast at 3.8 per cent in real terms.

Mr Rato said this bullish forecast, slightly up on this year, made allowance for the revised outlook of Spain's main European customers and tougher import competition from countries with devalued currencies.

David White, Madrid

LITHUANIA

Capital gains tax approved

Lithuania's parliament yesterday approved a 15 per cent capital gains tax, which will be levied on Lithuanian investors from January 1. The decision was a compromise after negotiations between parliament, which had originally proposed a 28 per cent tax, and President Valdas Adamkus, who backed a lower tax.

In July brokers at the local bourse briefly stopped executing trades as a protest against the 28 per cent capital gains tax proposal. Brokers said the tax would deter locals from investing in the market, which is illiquid. "Our suggestion was that the tax should not be more than 10 per cent but it's certainly better at 15 per cent than at 28 per cent," said Romas Matukas, head of the Lithuanian Brokers' Association.

Local individual investors account for about 17 per cent of all investments on the Vilnius bourse. The law which was passed yesterday does not tax re-invested capital gains, and all profits below 3,000 litas (\$750) are exempt from taxation. Mirek Vipotnik, Riga.

TURKISH-ITALIAN RELATIONS

Kurdish issue sparks row

Bulent Ecevit, Turkey's deputy prime minister, yesterday predicted that Italy's decision to allow members of the Kurdish parliament in exile to criticise Turkey's treatment of its Kurdish minority inside Rome's parliament would "alter relations between Turkey and Italy".

Ismael Cem, the Turkish foreign minister, had warned in a letter to Lamberto Dini, the Italian prime minister, that allowing members of the Brussels-based parliament in exile to participate in a press conference alongside Kurdish Italian deputies would strain ties with the nation that many Turks regard as their most loyal European ally.

Turkey contends the Kurdish parliament is a front for the Kurdish Workers' party (PKK), the guerrilla organisation which has spent the past 14 years fighting Turkey's army. Italy, in common with many European countries, has banned the PKK.

The Turkish foreign ministry said the decision to hold the event in Rome's parliament showed that "Turkey's peace of mind, stability and territorial integrity count for nothing". Chris DeBellaigue, Ankara.

HOLOCAUST

Austria sets up commission

Austria set up an independent commission yesterday to investigate the claims of Austrian victims of the Nazi Holocaust, the chancellor's office said in a statement.

The commission will investigate and report on dispossession made by the government during the Nazi occupation and on payments made by the republic of Austria since 1945. An estimated 65,000 Austrian Jews died in the Holocaust.

Creditanstalt, one of Austria's largest banks, is under scrutiny by Jewish groups after documents recently unearthed showed a business relationship with concentration camps in Poland during the second world war. Reuters, Vienna.

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دولتی، اسلامی

KOSOVO EVIDENCE POINTS TO ATROCITY AGAINST ETHNIC ALBANIAN CIVILIANS

Massacre overshadows Serb ceasefire claim

By Guy Dinmore in Gorzje, Serbia

Evidence came to light yesterday of one of the worst atrocities committed against ethnic Albanian civilians in Serbia's Kosovo province. The massacre of women and children, allegedly committed by special police units on Saturday, has overshadowed the government's announcement of a ceasefire and, diplomats said, would add to calls for Nato intervention.

Senior western envoys, who toured Kosovo yesterday to see refugees and the ruined villages, were visibly shocked when handed a report written by the Kosovo Diplomatic Observer Mission on the latest atrocity. In a thickly wooded gully near the village of Gorzje, some 15 miles west of Pristina, the provincial capital, diplomats and

reporters found the bodies of five women and four children. The youngest was 18-month-old Valmir Delija. It was not clear how the infant had died but the others had been shot at close range in the back of the head as they tried to flee up the muddy slope. Up the valley, the charred remains of 55-year-old Fazli Delija lay in the ruins of his burnt-out house. Two dead men were found close to a

trail of trees that had been destroyed by a tank. Altogether reporters found 19 bodies. All were in civilian dress. Villagers said they were all from the Delija clan. One six-month-old baby survived, found next to the body of its mother. Sadi Delija said he was with the women and children hiding in the woods last Friday when police attacked their village. On Saturday morning he

saw police, in various kinds of uniform, approaching their shelter. As he fled he heard screams and gunfire. Serbian officials had no immediate comment. Diplomats noted that seven policemen had been killed in the same area on Friday and that it was possible the massacre had been carried out in retaliation. Envoys touring Kosovo said the killings and the worsening humanitarian

crisis would add to pressure on Nato to intervene, although they admit it is not clear how planned air strikes would end the violence. Kosovo Albanians yesterday rejected Serbia's new provisional government for the province and official Serb claims that its offensive against KLA "terrorists" was over. A heavy artillery bombardment continued on Monday evening in southern Kosovo.

Yesterday diplomats were stopped by police from approaching the area but could see villages burning in the distance. Zvezdan Jovanovic, Yugoslav foreign minister, speaking at the UN in New York, insisted that the fighting had stopped and that "unjustified" actions have been completed - this is a clear very responsible statement of policy from the highest levels.

Albanian ruling party picks PM

Albania's ruling Socialist yesterday nominated Pandeli Majko, the party's secretary-general, to succeed Fatos Nano as prime minister heading a five-party coalition, the Socialist party said, agencies report from Tirana. Mr Majko, 30, who would be the country's youngest ever leader if appointed by President Rexhep Meidani, was active in 1990 street protests which helped to topple the country's isolationist Stalinist regime.

Mr Majko won the nomination despite competition from two other candidates - Kastriot Islami, the deputy prime minister, and Ilir Meta, a foreign ministry state secretary in charge of European integration. Although Mr Majko lacks ministerial experience he became prominent as a mediator in feuds between Mr Nano's government and the opposition Democratic party led by Sali Berisha, the former president.

In a letter to Mr Meidani, Mr Nano said on Monday he had stepped down because squabbling had made it impossible to form a new cabinet of his five-party coalition government. He told the president he had been unable to put together a new cabinet according to his own wishes. He acknowledged his responsibility "for everything this government has not done" and said that "the chances of coming out of the crisis are little".

Mr Nano also admitted that communication with international leaders had become strained since political tensions increased between him and Mr Berisha. These tensions peaked with the assassination by unidentified gunmen of Azem Hajdari, a close associate of Mr Berisha last month. After the murder, supporters of Mr Berisha stormed public buildings in Tirana and set fire to Mr Nano's office and residence.

EUROPEAN COMMISSION BRUSSELS SUSPECTS FOOT-DRAGGING IN NEGOTIATIONS WITH APPLICANT COUNTRIES

EU states 'try to slow enlargement'

By Quentin Peel in Brussels

Suspensions are growing in Brussels that many of the 15 member states of the European Union are seeking to slow down the pace of enlargement negotiations with the six applicants seeking to join their club. Formal negotiations are supposed to be launched on November 10 with the five would-be members from central and eastern Europe - the Czech Republic, Estonia, Hungary, Poland and Slovenia - and Cyprus.

But the chances of those talks focusing rapidly on the range of detail needed to join the EU are seen to be fading, after France asked the European Commission to draft a full "political" assessment of the enlargement negotiations. The result of that request is a Commission report, to be submitted to EU foreign ministers next week. The report suggests that the 15 can proceed to draft their own common positions on the first seven areas of negotiation - including telecommunications, industrial policy, broadcasting, education and training.

France's request for the report was seen at the Commission as a bid to draw a line between the present "screening" phase, and the next period of full negotiations - a means of delaying the latter. "The Commission has been working too efficiently for the last few months," a Commission official said. "The French want to use this document to say it would not be very smart to go ahead with the next phase."

Apart from France, countries such as Spain, Portugal and Greece - large net recipients of EU funds - are obvious doubters about the speed of enlargement. In addition, Germany and Austria are concerned at any swift moves to allow free movement of labour. France has also demanded full details from the Commission of all the applicant countries' position papers, spelling out the problems they may have in meeting particular aspects of EU legislation.

"They say it is for transparency, but the only reason they could want to see these documents is to be able to get all the dirt to delay the process," a Commission official involved in the talks said. "The Commission has asked for patience. But the mood among member states is changing. The rhetoric in favour of enlargement is damping down."

Fyodorov warns of money-printing plan to fund deficit

By John Thornhill in Moscow

Boris Fyodorov, the outgoing deputy prime minister, yesterday warned that the Russian government intended to print money to cover its fourth-quarter budget deficit - a move that would be certain to fuel inflation and jeopardise funding from the International Monetary Fund. Mr Fyodorov, who was sacked this week as a cabinet minister and head of the tax service, said the finance ministry was already "planning a budget for the fourth quarter where there will be a deficit which can be covered by an emission".

There was no one in the government against using an emission in this way, he said in an interview with the Financial Times. The finance ministry, which has so far collected only half its planned tax revenue for September, will present its revised budget proposals to the cabinet tomorrow. Yuri Maslyukov, the former Communist parliamentarian who is now first deputy prime minister in charge of the economy, will also outline the government's long-awaited economic programme.

Mr Fyodorov said the government would have to issue at least Rbs50bn to Rbs60bn (\$3.1bn-\$3.7bn) - equivalent to about one-third of the monetary base - just to cover its immediate needs and pay off wage and pension arrears. But he expected the government to try to limit the scale of emission. "I think they will be scared to go on a spending spree, as some people say. These disaster scenarios of hyperinflation by the end of the year - I do not believe in them," he said. However, the IMF, which has lent Russia almost \$19bn over the past four years, has already told the government it does not believe in the concept of a "controlled emission" and has warned of the social pain caused by high inflation.

UBS AND CREDIT SUISSE SWISS CONCERN OVER ADEQUACY OF TRADITIONAL ARMS-LENGTH SUPERVISION

Biggest banks to get own watchdog

By William Hall in Zurich

Switzerland's banking commission has set up a division to supervise the global activities of UBS and Credit Suisse, the country's two biggest banks, following concern that they have grown too big to be regulated like the rest of Switzerland's 400-odd banks. Andreas Buhlmann, 39, an economist who has worked at the Swiss Banking Commission for three years, was yesterday appointed head of the new division.

Until now Switzerland's banking watchdog has relied primarily on reports of the banks' own external auditors to monitor the health of Switzerland's banking system. However, the merger of UBS and Swiss Bank Corporation, the rapid growth of Credit Suisse Group, and recent trading losses, have raised concerns about the adequacy of this traditional arms-length supervision. Daniel Zuberbühler, director of the Swiss banking commission, said the two

banks, which now rank among the world's top 10, had become "so systematically relevant and so complex" that they needed "particular attention". He said it was no longer enough to rely on external audit reports. The banking commission needed to "permanently update" its position on the affairs of the two banks. This would involve the establishment of review teams, on-site supervisory visits in Switzerland and abroad, and much closer

co-operation with foreign regulators. Switzerland's banking commission has traditionally been thinly staffed and under-resourced, leading to concern that it was not up to the job of supervising two of the world's top 10 banks. Mr Zuberbühler stressed the new unit was not a direct response to the recent problems at UBS, Europe's biggest bank, which lost SF655m (\$64m) on equity derivatives last year, and last week announced a SF650m loss on its involvement in Long Term Capital Management, one of the world's biggest hedge funds. The idea had first been mentioned in April.

However, the decision to set up a separate unit to monitor UBS and Credit Suisse also reflects growing concern among Swiss politicians that Switzerland's two flagship banks have grown to such a size that they could cause serious financial problems for the Swiss government if they ever had to be bailed out.

THE AMERICAS

Brazil to curb short-term capital inflows

By Geoff Dyer in São Paulo

Brazil plans to limit the amount of short-term capital coming into the country to reduce pressure on reserves during periods of market turmoil, says a director of the central bank. Francisco Lopes, director for monetary policy, said the period of volatility in Brazilian markets had been exaggerated by the large amounts of short-term money which had been

invested in the country earlier in the year and which had sought a rapid exit over the last six weeks. "One important lesson of the crisis is that you take a lot of risks with large short-term capital inflows," Mr Lopes said. Brazil's reserves fell from \$74bn in July to around \$48bn after the Russian devaluation prompted a new crisis of confidence in emerging markets and led to fears of a forced devaluation in

Brazil, Latin America's largest economy. Mr Lopes did not recommend the adoption of heavy capital controls to stem the outflow, an option pushed by some members of the Brazilian government, but so far fiercely resisted by the finance ministry and central bank. His comments amount to a reversal of the previous policy of relaxing the rules on short-term capital inflows during periods of market turmoil.

Last November, at the peak of the Asia crisis, Brazil opened loopholes to encourage foreign investors to put money into short-term debt instruments, leading to a sharp inflow of funds and a rapid rise in reserves. Mr Lopes did not give details of how capital inflows would be restricted in future but implied that the government was now opposed to using similar loopholes. "We thought the increase in reserves would be good

for expectations after Asia," said Mr Lopes. But the inflow of "hot money" had left reserves artificially high and vulnerable to investor mood swings. "With less short-term capital, we will be better prepared to survive the next round of volatility," he said. The central bank said outflows of dollars, which averaged around \$1.5bn in the first two weeks of the month, had slowed sharply since interest rates were

increased sharply on September 16. But the outflow increased on Monday to \$739m in a sign of continued investor nervousness. Economists believe reserves will come under heavy pressure again if the government does not present a convincing policy for reducing the budget deficit after the general elections on Sunday. Mr Lopes said the deficit at the end of the year would be 7.6 per cent of gross domestic product.

Democrats split over TV attack on Starr

By Richard Wolfe in Washington

President Bill Clinton's supporters appeared sharply split yesterday over plans to broadcast a series of television advertisements attacking Republicans over the Starr report. A group of liberal Democrats called People for the American Way is planning a \$5m campaign to criticise the Republican-led Congress for concentrating on the Monica Lewinsky scandal instead of "what needs to be done in this country". The advertisements are designed to lift the turnout of voters in the mid-term congressional elections next month, and are expected to highlight mainstream Democratic issues such as social security and education. The White House and Democratic leaders raised concerns about the adver-

tisements yesterday, fearing the campaign would distract attention and funds away from grassroots candidates. Mike McCurry, the senior White House spokesman, said the president was determined to help candidates raise money and their public profile. "I am not confident that any kind of national advertising campaign is going to be helpful," he said. The tone of the campaign echoes President Clinton's attacks on Congress for failing to reach agreements on legislation over healthcare, education and the federal budget. Mr Clinton last week condemned the Republican majority for "failing to meet its most basic governing responsibility" by putting "partisanship over progress, politics over people". Republicans welcomed the prospect that the national advertising campaign would

draw away from individual races across the US. The party is already estimated to be spending double the Democrats' funds in the congressional elections. But they fiercely criticised the White House for attacking Congress. Trent Lott, the Republican leader in the Senate, yesterday said the attacks would undermine any remaining chance of negotiating a compromise on legislation before Congress adjourns next month. The White House yesterday succeeded in securing the withdrawal of a series of fashion advertisements which capitalised on the Lewinsky affair. Tommy Hilfiger, US fashion designer, agreed to a request from the president's lawyers to drop a series of pictures featuring a mock White House. One included a young brunette on a desk in a fake Oval Office.



Kenneth Starr: Democrats are uncertain whether to attack his report through TV adverts

US armed forces show fresh signs of 'serious wear'

By Stephen Fidler in Washington

US armed forces were showing "increased signs of serious wear" and there was evidence that their long-term health was in jeopardy, the chairman of the joint chiefs of staff told the Senate armed services committee yesterday.

General Henry Shelton said a combination of factors, including strict budget limits and a greater operational workload, had together put strains on military readiness. "Our forces are showing increasing signs of serious wear," he declared. "Anecdotally initially, and now measurable evidence

indicates that our readiness is fraying, and the long-term health of the total force is in jeopardy," added Gen Shelton, who appeared with the chiefs of staff of the main services. The US had successfully maintained the readiness of its forward troops and first-to-fight forces, but this has not been without cost to the

rest of the force. US forces had been called on unexpectedly - for example in Albania, Algeria and Africa - which had also caused higher than expected wear on equipment. This had led to shortages of spares and maintenance backlogs. There had also been personnel and base reductions, and some privatisations which had not gone ahead. Congress had also altered the defence budget and complicated the military's task, while a strong economy had made recruitment harder, and was creating skill shortages.

"Without relief, we will see a continuation of our downward trend in current readiness" next year and an extension of the problems that had become apparent in the second half of this fiscal year, Gen Shelton said. He urged more funds to be voted by Congress for Bosnia and the military response to terrorist attacks in Africa, though he said the US was still capable of fighting two "major theatre wars".

There had also been personnel and base reductions, and some privatisations which had not gone ahead. Congress had also altered the defence budget and complicated the military's task, while a strong economy had made recruitment harder, and was creating skill shortages.

NEWS DIGEST

MICROSOFT ANTITRUST TRIAL

Software rival in bid to block documents demand

One of Microsoft's biggest rivals in the software industry went to court yesterday seeking to block a broad demand for internal documents that Microsoft is seeking to use as evidence in its forthcoming antitrust trial. Oracle, the second largest company in the software industry, said Microsoft's civil investigative demand, the equivalent of a subpoena, was "far too vast" and asked the judge to quash it. Judge Thomas Penfield Jackson was expected to issue a ruling before the end of the day. Oracle said Microsoft "apparently believes that its status as an accused monopolist entitles it to use judicial process to delve into its competitors most sensitive commercial information". But Microsoft argued the documents were "plainly relevant" to its case. Louise Kehoe, San Francisco

MCCORMICK PLACE, CHICAGO

Action to save \$5bn business

Labour unions and business groups yesterday finally unveiled a package of cost-cutting measures to help Chicago's McCormick Place, the nation's biggest trade show centre, combat competition from rival facilities and hang on to its near \$5bn-a-year business. McCormick Place, a complex covering 2.2m sq ft major pulls in about \$4.7bn annually and helps to sustain thousands of jobs. Under yesterday's deal, the two unions involved in construction - the Decorators and the Carpenters - will agree to create a "united labour pool" to cut some of the costly installation delays. The unions have also agreed to cut overtime rates. Exhibitors will also be able to do more of their own assembly and decorating work. Meanwhile, Chicago's hotels are criticised for charging uncompetitive rates - have agreed to price more attractively. Nikki Tait, Chicago

INDIA AND PAKISTAN SANCTIONS

US vote boosts rupee

The Indian rupee ended firmer against the dollar yesterday in response to the first steps taken by the US Congress towards easing sanctions against India and Pakistan. A House-Senate panel voted on Monday to give President Bill Clinton discretion to issue a one-year waiver of sanctions. The panel decision will have to be ratified by a full floor vote in Congress, but analysts said it was a positive sign. India's and Pakistan's nuclear tests in May prompted the US economic sanctions. The Indian rupee ended firmer at 42.45/46 against the dollar yesterday, up from Monday's close of 42.50/52. Reuters, Bombay and Washington.

On the web today

- Brazilian drought touches a raw political nerve
- Oil fails to calm Newfoundland's troubled waters
- Bolivia wins hefty debt service relief

<http://www.ft.com/americas>

INTERNATIONAL

GLOBAL ECONOMIC CRISIS PRIVATE SECTOR CAPITAL FLOWS FORECAST TO FALL SHARPLY THIS YEAR

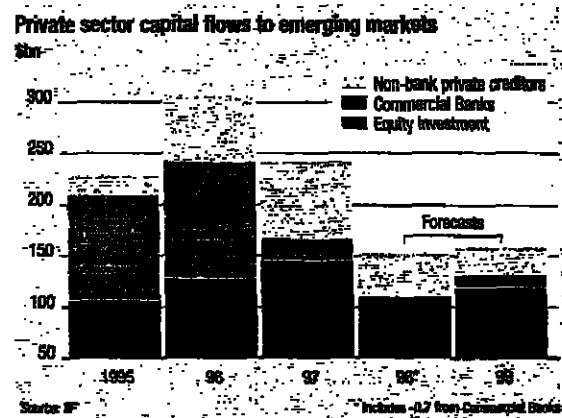
Investors retreat from emerging markets

By Robert Chote, Economics Editor, in Washington

Private sector capital flows to emerging market economies are dropping this year to barely half the record level of 1996, as bond issues dry up and commercial banks demand more in repayments than they make in fresh loans.

The Institute for International Finance, a Washington-based umbrella group for financial institutions, forecast yesterday that private sector capital flows to 29 leading emerging market economies would fall to less than \$160bn this year, down from \$342bn last year and \$308bn in 1996.

"Widespread investor retreat from emerging markets, coupled with the difficult adjustment process in many Asian economies, creates the potential for a



global recession that would jeopardise the welfare of populations in high-income and low-income countries alike," warned Charles Dallara, the Institute's managing director.

Capital flows are expected to remain at around \$158bn next year, but \$16.4bn of this

will be accounted for by mounting arrears on interest payments to banks and bondholders. Interest arrears will account for 43 per cent of new lending by private creditors next year, up from 18 per cent this year and zero in 1997. This implies that the underlying trend in

capital flows will continue to be down.

Bond issues have almost dried up since the Russian debt moratorium in mid-August, as spreads have become too expensive for borrowers and investors avoid risk. Other than a \$350m Lebanese issue sold almost entirely to Middle Eastern investors, there were no published emerging market issues from mid-August to late September.

Mr Dallara said that a forceful strategy was required to restore investor confidence, involving governments, multilateral institutions and private sector participants. At the macro-economic level this required easier monetary policy from industrial countries, further efforts to revitalise Japan's economy and greater fiscal discipline from countries seeking to participate in

global capital markets.

The Institute insisted that short-term capital flows had a useful role to play underpinning trade and inter-bank lending but conceded there was a case for Chilean-style taxes on short-term inflows. It warned, however, that "broad application of controls to inflows and outflows can have serious distorting effects on investment, deprive countries of much needed capital and impede medium-term growth."

Private sector financial institutions also needed to strengthen their risk management, Mr Dallara argued, taking more account of volatility, illiquidity and counterparty creditworthiness. He added that highly leveraged "hedge fund" investors should be supervised more rigorously and called for the publication of more data on bank exposure

to particular countries and the health of national financial systems.

Governments and multilateral institutions should also communicate regularly with the private sector to prevent crises getting out of hand, the Institute suggested. But critics suspect this is special pleading on behalf of big private sector institutions, which want an early warning mechanism that would allow them to get their money out.

With leading by private creditors and portfolio equity flows into emerging markets projected to more than halve this year, the one bright spot is the resilience of direct investment - establishing a physical operation or buying a company in an emerging market. Direct investment flows are expected to total \$105.9bn this year, compared with \$119.7bn last year.

COMMONWEALTH FINANCE MEETING

Emergency moratorium on debt proposed

By Edward Alden in Toronto

Canada yesterday proposed the creation of an emergency mechanism that would allow debtor countries to freeze temporarily their short-term financial obligations in the event of financial crises that pose the threat of default.

Paul Martin, finance minister, said in a speech to Commonwealth business leaders in Ottawa that private sector investors such as banks must in the future accept formal obligations for the resolution of international financial crises.

That could mean negotiating an "emergency standstill clause" into all cross-border financial contracts involving sovereign borrowing. The clause, which would allow for the declaration of a moratorium of perhaps 90 days on all debt repayment and debt servicing, would give countries the breathing room to renegotiate payments in the face of a financial crisis.

The clause could only be exercised in extreme circumstances where the withdrawal of short-term finance was severely hampering the restoration of financial stability, and would require the agreement of the executive board of the International Monetary Fund, Mr Martin said.

The proposals came at the opening of a three-day meeting of Commonwealth finance officials in Ottawa that is focused on finding ways to protect developing countries against the destabilising effects of volatile capital flows.

In addition, Mr Martin plans to press the initiative with his counterparts at a meeting of IMF finance officials in Washington at the weekend.

The proposed standstill mechanism is intended to address the underlying weaknesses of the IMF,

which was initially designed to deal with current account problems and lacks the resources to deal with capital crises, Mr Martin said.

"Akin to runs on the bank, but on a staggering scale, these outflows are simply too large for the IMF to finance because global capital flows have grown so tremendously," he said.

Under the proposed mechanism, private sector lenders would face obligations equal to governments in providing liquidity and restructuring debt. The procedures would allow these creditors to be represented in all such negotiations.

South Korea was successful last year in negotiating

Banks must accept obligations for solving crises

an *ad hoc* standstill with its creditor banks, said Mr Martin, in contrast to Russia's unilateral defaulting on its debt.

But an emergency clause would help lay out the ground rules for such negotiations before a crisis occurred, not after.

Canada is also proposing that the IMF draw up a "roadmap" for capital market liberalisation that takes seriously the need for capital controls under certain circumstances.

This would be a practical guide to how countries could pursue capital liberalisation "without suffering a deadly financial accident on the way," said Mr Martin. That roadmap could include controls on short-term capital inflows for emerging markets with relatively fragile financial systems, he said.

Strains on the IMF and World Bank, see Comment & Analysis

CURRENCY TRADING BIS THREE-YEARLY REPORT

Euro dawn promises challenge to mighty \$

By Richard Adams and Andrew Balls in London

The coming of the euro - the European single currency - means that the latest survey of the international foreign exchange market may soon look like a museum piece.

The survey - held every three years by the Bank for International Settlements and central banks around the world - revealed that the dollar is still far and away the dominant world currency.

In London, the world's leading centre for foreign exchange, buying or selling of the dollar accounts for 85 per cent of total turnover. That proportion is little changed from previous surveys.

But the latest survey, published yesterday, shows a rise in trading in the dollar against the currencies that will make up the euro when

it is launched in January.

In 1996, the combined dollar-euro trades accounted for around 38 per cent of total turnover, with 22 per cent of the total market coming from dollar/D-Mark trading.

Three years later and the total has risen above 40 per cent, thanks to greater activity in lira and other member currencies.

Hal Herron, the global head of foreign exchange trading at Deutsche Bank in London, said: "When the euro comes into being it will be as a major bloc. We will see it traded against a whole range of currencies. Things will look completely different, that's for sure."

But it may take time for the euro to challenge the dollar as the international currency of choice, because of the deep reserves held in dollars worldwide.

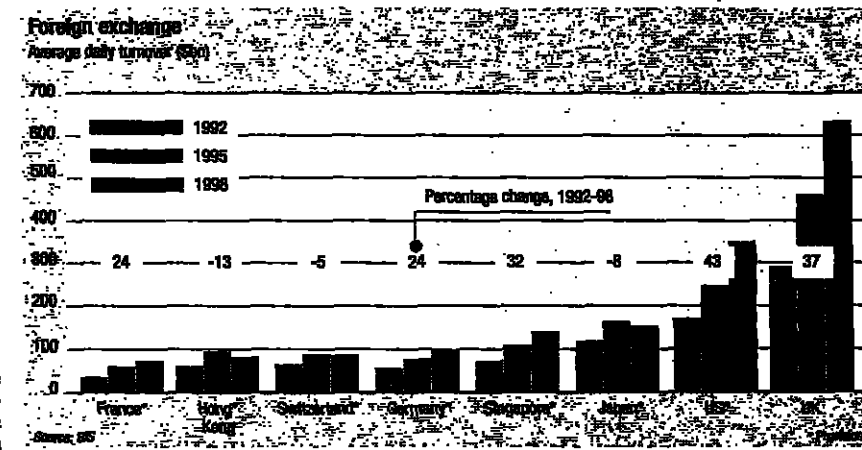
A change in the dollar's status could hurt the pos-

sition of the New York market, which remains the largest foreign exchange centre after London.

Turnover in New York has grown by 43 per cent since the last survey, at an average of \$351bn per day in April compared to \$244bn in 1995, for an annualised growth rate of 13 per cent.

The New York market for foreign exchange swaps is now larger than the spot market, accounting for 47 per cent of foreign exchange transactions, compared to 42 per cent spot volume. The daily turnover of foreign exchange and interest rate derivatives has increased by 75 per cent in three years, rising from \$52bn in 1995 to \$91bn in April 1998.

However, New York is still only just over half the size of the London market. London is home to a daily turnover of \$637bn, as much as US, Japan and Singapore, the



next biggest markets, combined.

The London market also showed a rapid rise in over-the-counter (OTC) derivatives currency trading, which rose by 131 per cent in the three years since the last survey.

"The problems in Asia have shown that if you do have to hedge a currency exposure, there are more effective ways of doing it than just using the spot or forward market," Mr Herron said.

As the Japanese market shrinks, Singapore is challenging Tokyo's position as

Asia's biggest foreign exchange market.

The Bank of Japan's survey, part of the survey of 43 countries and regions co-ordinated by the BIS, showed that average daily turnover in Tokyo's foreign exchange market has fallen 7.9 per cent since 1995, its first fall since the survey began in 1986.

Tokyo's daily turnover in spot, forward and swap transactions dropped to \$148.7bn in April, compared to \$161.4bn in April 1995.

The BoJ said that a sharp decline in forward and swap transactions lay behind the

fall. But the crisis in the Japanese banking system has also played a part. A reduction of credit lines to Japanese financial institutions on currency transactions due to declining confidence in Japanese banks has pushed down volume.

Paul Chertkov, head of global currency research at the Bank of Tokyo-Mitsubishi, said some Japanese banks had suffered from the "Japanese premium" and recent credit downgrades. As a result, counterparties had been unwilling to do business with some Japanese institutions.

Israeli PM may try to buy off settlers

By Judy Dempsey in Jerusalem and Stephen Filler in Washington

Benjamin Netanyahu, Israeli prime minister, who returned from Washington yesterday, may offer Ariel Sharon the post of foreign minister in an attempt to buy off Jewish settlers who are threatening to topple the government.

The deal, if confirmed, might convince hardline settlers to accept a limited second Israeli troop pullback from the West Bank that would leave Palestinian towns and villages cut off from each other by the settlement by-pass roads.

It would also catapult one of Israel's most hawkish politicians, currently infrastructure minister, into the limelight. The foreign ministry has been under Mr Netanyahu since January when David Levy resigned in a protest over tax cuts and other issues. All appointments have since been made by Mr Netanyahu, communication between senior ministry officials and the prime minister's office has been kept to a minimum and morale has sunk as the ministry has been robbed of initiative.

The settlers, representing 1 per cent of the population, believe the Netanyahu government is vulnerable - it has a majority of only one in the Knesset, or parliament. "If the government decides on this withdrawal, which means giving Arafat a Palestinian state on a silver platter, we won't be able to be partners to this government. This means there will be early elections," said Hanan Porat, Knesset deputy for the rightwing National Religious party.

But it is far from clear what Mr Netanyahu agreed during talks with President Bill Clinton. Under pressure from Israel, diplomats said Mr Clinton declined to confirm publicly that Mr Netanyahu had accepted a watered-down version of an earlier US proposal. That envisaged handing over 13 per cent of West Bank land to Palestinian control.

Iraq arms inspector reveals Israeli link

By Roshdi Khatib in London and Laura Silber in New York

Israel played an important role in assisting United Nations arms inspectors uncover how Iraq concealed its weapons of mass destruction, Scott Ritter, the inspector who resigned earlier this summer, revealed yesterday.

Officials with the UN commission charged with dismantling Iraq's arsenal of banned weapons (Unscow) yesterday played down the significance of Mr Ritter's statement and pointed out that many governments had helped disarmament efforts.

Unscow declined to describe Israel's role or provide details about any country in particular. "People [from Unscow] have travelled to all sorts of countries, all over the world to see what information they possess about Iraq's weapons programmes," said Ewen Buchanan of Unscow.

"In the absence of the Iraqis telling the truth, companies, governments and member states are encouraged to assist us with our work by providing us with technical and physical support or whatever information they have," he said, adding, "some countries won't help us."

The US must change its behaviour towards Iraq and lift sanctions that hinder economic development if it wants a serious political dialogue with Iraq, according to Kamal Kharrazi, foreign minister, Reuters reports from New York.

"In line with the underlying principles of our foreign policy, the approach of the Islamic Republic of Iran towards the US will be commensurate with changes in US behaviour towards Iran," he told the Asia Society on Monday night.

He said US sanctions and a freeze on Iranian assets were retarding the economic prosperity of Iran and the region, and depriving US companies



Ritter: Israel helped UN break Iraqi arms code

movement of weapons it wanted to hide from inspectors.

Mr Ritter's decision to reveal this information would appear to be part of a score settling campaign against the US. The former US Marine captain, who was responsible for Unscow's anti-concealment operation, quit his job in protest against the US government's moves to halt inspections.

He claimed yesterday that Israeli assistance had put inspectors on the verge of major discoveries, which the US had prevented them from pursuing.

Mr Ritter said the US had blocked inspections because this would have entailed inspecting the people closest to President Saddam Hussein, including his security services and family members, and would have led to direct confrontation with the Iraqi regime. The US, conscious of the lack of support for military action against Baghdad, has been keen to avoid confrontation.

Iraq claims that the commission has been biased and should be restructured before Baghdad reverses its August decision to halt co-operation with inspectors. Baghdad has long accused Mr Ritter of spying.

Iranian minister points way to better US ties

of lucrative investments in Iran's oil and gas industry.

He also criticised US "one-sided support" of Israel and funding for a radio station to wage an anti-Tehran propaganda campaign.

Mr Kharrazi cited three areas where Iran was "prepared to participate actively and constructively", namely the fight against narcotics, against terrorism and against weapons of mass destruction.

He also seemed to want to correct a widespread impression that Iran's more moderate foreign policy of the past year, with its overtures to the US and the west, was the work solely of President Mohammad Khatami, not

also of the country's supreme leader, Ayatollah Ali Khamenei.

Mr Kharrazi said this foreign policy "has also received the unreserved blessing of the leader of the Islamic Revolution".

The speech had been anticipated as the authoritative Iranian response to a speech to the Asia Society on June 17 in which Madeleine Albright, US secretary of state, unveiled a US "roadmap" for improving US-Iranian ties.

The Clinton administration sent several senior officials to hear Mr Kharrazi's speech, including Thomas Pickering, undersecretary of state for political affairs.

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SAEEM

INDONESIAN PROJECTS BONDS RUN RISK OF DEFAULT AFTER STATE COMPANIES FAIL TO PAY FOR ELECTRICITY

Moody's downgrades big power schemes

By Andrew Taylor in London and Sander Theones in Jakarta

Moody's Investors Service yesterday downgraded three large Indonesian power projects, backed by US energy groups, warning that bonds issued to support the schemes ran the risk of default.

The move comes as the Indonesian government is under increasing international pressure to honour power purchase agreements.

Alan Larson, US assistant secretary of state for economic and business affairs,

said in Jakarta yesterday: "When there are contractual obligations, it's important, where possible, to honour them. When it's impossible to do that, [renegotiations] must be done in an open, fair and transparent manner."

Problems have arisen because two Indonesian state companies, Pertamina and Perusahaan Listrik Negara, have failed to make full payments for electricity supplies.

The three projects downgraded by Moody's include the country's largest power

project, Palton One, a 1,230MW scheme sponsored by Edison Mission Energy. Moody's has downgraded finances for the scheme to Caa2.

Two other projects have been downgraded to Ca. These are CE Indonesia Funding's geothermal projects at Dieng and Patuha, sponsored by CalEnergy and DSPL Finance Company's geothermal project at Gunung Salak backed by Unocal of the US.

Project bonds rated Ca "are speculative in a high degree... such issues are

often in default or have other marked shortcomings," according to Moody's.

The collapse of the rupiah has left Indonesia with costly power purchase agreements which are nominated in dollars while it sells in rupiah. The currency crisis also has weakened demand for electricity from industry and business.

Moody's said that failure by Pertamina, the state-owned oil and gas group, and PLN, the power utility, to pay CE Indonesia and DSPL represented

a failure by government "to abide by its support obligations".

It warned that it was "inevitable that similar contractual breaches will occur in respect of other independent power projects as and when they come on stream".

Some of the most costly contracts, such as for Palton, have been signed with foreign investors who teamed up with relatives and friends of former president Suharto even though much of the country already faced over-supply.

PLN, the power utility, has so far told independent power producers only that it lacks the cash to pay but producers complain they have heard little else. Some have proposed partial payments, with compensation in the form of options to buy PLN power plants, but have waited in vain for any response.

Power analysts presume that Palton will have to accept lower rates but PLN will not need its power even then, as it faces a drop in consumption due to the economic crisis.

US steel industry seeks to check import surge

By Nancy Duane in Washington

The US steel industry, backed by the steelworkers' union, is expected to file the first of a series of unfair trade complaints as early as today.

The company-union coalition is also seeking separate action from the US government to check surging steel imports, which reached a record 4m tonnes in July.

Representatives of 12 steel

companies and the unions have met administration officials, including Charlene Barshefsky, US trade representative, and Robert Rubin, treasury secretary.

Among other suggestions, they urged strong pressure on Japan to stem the flood of imports, which so far this year are 130 per cent higher than in the same period a year ago.

The US steel industry has been one of the first to share the pain of the economic tur-

moil in Asia and Russia. Officials have been anxiously watching imports for the past year, as Asian demand weakened and exports were diverted to the US.

So far this year, imports from Russia have risen almost 19 per cent; from Japan, 130 per cent; Korea, 83 per cent; Indonesia, 374 per cent; Australia, 120 per cent; South Africa, 94 per cent; India 57 per cent, and Ukraine, 52 per cent.

"We are sympathetic to what is happening in these countries," said Hank Barnett, chairman of Bethlehem Steel. "But we have gone through a significant transformation. We have reduced jobs from 500,000 to 200,000 and really restructured. We are truly a low-cost and high-quality producer."

George Becker, head of the steelworkers' union, expressed concern that anti-dumping and subsidy laws,

changed to make them consistent with the World Trade Organisation rules, would not provide sufficient protection soon enough to prevent large-scale job losses.

"I am very fearful with devaluation and [overseas] industry depressing the wages that this may not be considered dumping," Under the US definition, "dumping" is selling at below "fair market" prices.

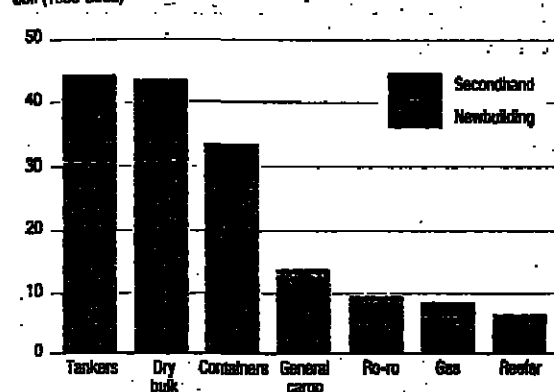
"We feel if we don't raise

hell, nothing will be done," said Mr Becker. "We're ready to hit the docks," suggesting that steel workers and other union members may protest against the unloading of foreign steel.

Mr Barnett said overseas producers must "bring about their own rehabilitation". Solutions should be multilateral. However, the US tried and failed to lead negotiations for a multilateral steel arrangement in the early 1990s.

Prospective ship finance requirements

\$bn (1998-2002)



Source: Drewry Shipping Consultants

SHIPPING FINANCE

A secretive industry opens its books to new lenders

By Charles Batchelor, Transport Correspondent

The world shipping industry may need to raise up to \$160bn over the next five years to finance the purchase of new and second-hand vessels, according to a survey by Drewry Shipping Consultants.

The need for external sources of finance has forced a traditionally secretive industry to open its books to outsiders such as banks, bond issuing houses and credit rating agencies.

Even the normally reticent Greek shipping community, the world's largest with 16 per cent of the global fleet in terms of tonnage, has overcome its shyness of publicity, the survey said.

One notable feature of recent fund-raising by shipowners has been the popularity of "junk bond" issues - high-yield debt issues which have not obtained an investment grade rating - on the US capital markets.

Drewry estimated that shipowners raised \$29bn from all sources to finance new buildings in 1997 - assuming that 80 per cent of the purchase price was met externally - and that the total requirement for the period 1998-2002 would be a further \$125bn.

However, this excludes cruise ships, which are undergoing a boom, and other specialised vessels.

The expected need to finance second-hand ships is around \$30bn-\$35bn, assuming that 60 per cent of the cost is financed externally.

The increasingly global nature of financial markets has allowed more finance providers to move into the shipping market despite its extremely cyclical nature. "Ship finance is more cyclical than the shipping industry itself," the survey said.

Poor returns in other areas of investment have also persuaded newcomers to enter the shipping market alongside the core players, currently estimated to number between 40

and 65 institutions.

The shipping crisis of the 1980s, when huge losses were sustained by banks, has not deterred bankers from returning to the sector.

Junk bonds have also become more readily available in the past two years. They are typically for 10 years and do not require principal to be repaid until the end of that period.

But on the debit side, the rate of interest will be high and in the event of the issuer being unable to keep up interest payments, the bondholders are unlikely to show tolerance. Many institutions have a policy of selling a defaulted bond which would almost certainly lead to attempts to wind up the issuing company.

The use of bonds has helped make shipowners more open to the outside world, however. "Until recently the idea that a shipowner would have the pluck to apply for a credit rating and issue bonds, with all the outside scrutiny that entails, seemed nothing short of preposterous," the report said.

"Traditionally Greek shipowners have been reluctant to approach the US capital markets as a result of the high level of disclosure required. In addition, owners have been afraid that under US law their company will be more prone to liabilities in the event of a major incident."

But the opportunities for fund-raising have proved strong enough to overcome this traditional caution.

Tapping the equity markets remains difficult for shipowners, however. The sector has gained a reputation for volatile prices and has underperformed on most stock markets.

Shipping companies are generally too small to attract much interest from analysts so shares suffer a lack of liquidity.

Ship Finance: Choices, Competition and Risk/Reward Equations. Drewry, Fax +44 171 987 9396, 9450 (\$755)

Talks starting on big shake-up in Lomé pact

By Neil Buckley in Brussels

The European Union and 71 African, Caribbean and Pacific countries today launch negotiations on a sweeping shake-up of the Lomé Convention, their 23-year-old trade-and-aid agreement.

João de Deus Pinheiro, EU development commissioner, will meet Billie Miller, deputy prime minister of Barbados and president-in-office of the ACP countries' council of ministers, to launch the talks, expected to last at least a year.

The EU has proposed significant changes to the agreement, one of its biggest foreign policy commitments, which covers both development aid totalling Ecu2.5bn (\$2.9bn) a year from Europe, and preferential market access for ACP countries - many of which are former European colonies.

Some 45 per cent of ACP exports go to the EU, while 56 per cent of all official development assistance to ACP countries comes from the EU and its member states. The biggest and most controversial proposal is to replace the non-reciprocal trade preferences enjoyed by ACP countries with free trade agreements between

the EU and regions, sub-regions or individual countries.

Mr Pinheiro insisted last week each agreement would be appropriate to the level of development of the countries involved, and would be "asymmetrical" - giving bigger access for ACP countries to EU markets than the other way around.

The change is partly inevitable, since the current system requires an exemption each year from World Trade Organisation rules.

"Our experience is that getting this derogation is getting more and more difficult," Mr Pinheiro said. "The preferential system as it stands has also not allowed us to increase exports from our ACP friends."

He added that free trade agreements would do more to alleviate poverty by helping developing countries integrate into the world economy, and attract private investment.

But some ACP countries warn their economies are too fragile to withstand even an asymmetrical free trade deal with the EU.

Development groups also fear ACP states lack the negotiating experience to ensure they win deals that would benefit them.



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ASIA-PACIFIC

NEIGHBOURLY MOVE PROPOSALS WOULD AFFECT EMERGING ECONOMIES □ CHALLENGE TO G7 DEMAND FOR RAPID LIBERALISATION

Japan ponders support for capital curbs

By Gillian Triggs in Tokyo

Japan's finance ministry was yesterday discussing proposals to support occasional controls on short-term capital movements in emerging markets.

It is likely Japan will press western countries to back the idea at meetings of the Group of Seven industrialised countries and the International Monetary Fund this weekend and next week.

The stance could drive a wedge between Japan and other G7 countries such as the UK and US, which, together with the IMF, have traditionally encouraged rapid capital liberalisation. "Any move by Japan to support capital controls will not be very helpful," one western diplomat said yesterday.

Korea N-funds may be resumed

The Japanese government indicated yesterday it could reverse its decision to freeze \$1bn funding for a light water nuclear reactor in North Korea, Michio Nakamoto reports from Tokyo.

In a move that highlights a shift in Japan's policy towards the Korean peninsula, Masahiko Komura, foreign minister, said it was time to consider when the suspension of Japan's contribution to the Korean Peninsula Energy Development Organisation (KEDO) reactor programme

should be lifted. "There is a feeling in the US, South Korea and the international community that Japan has continued [its suspension of funding for KEDO] long enough," Mr Komura said. "The time has come for us to seriously consider lifting the suspension."

Japan suspended funding for the light-water nuclear reactor following North Korea's launch last month of what Tokyo assumed was a ballistic missile across Japanese territory.

Kiichi Miyazawa, the finance minister, yesterday stressed that the proposals remained "vague and not clear" ahead of the G7 meeting. "Many people are sym-

pathetic to the need [for capital controls], but nothing firm is decided yet," a senior bureaucrat said.

However, the finance minister said that he was seeking to find some "middle ground" between totally liberalised capital flows and the type of strict controls that Malaysia has recently introduced. In particular, officials indicated that Japan was likely to use the G7 meetings to call for better monitoring of hedge fund operations and the occasional use of controls on short-term capital inflows in emerging markets.

Takatoshi Ito, an economics professor and adviser to the Ministry of Finance, said: "I think what Miyazawa wants to do is send a message of support to emerg-

ing countries - to say that it is OK for emerging markets to impose some controls on inflows."

The ministry has been floating the idea of some form of capital control in private for four years. It has also been secretly opposed to some IMF austerity policies for south-east Asia in the last fiscal year.

However, until recently Japanese diplomats were reluctant to express their opposition to the IMF stance in public, partly because Japan received a humiliating rebuff when it floated proposals to create an Asian Monetary Fund last autumn.

But the recent Asian crisis has left Tokyo under new pressure to produce regional initiatives that will be popular among its neighbours. It

has refused to condemn Malaysia's capital controls.

Japanese diplomats suspect that the US position of supporting liberalisation at all cost has been weakened by the current confusion about US foreign policy and recent large losses at some US hedge funds.

Japanese officials yesterday stressed that they were unlikely to call for blanket capital controls on both outflows and inflows, or for capital controls in developed countries. Instead, the proposals will focus on inflows and are likely to be limited to emerging markets.

They also said that any initiative was likely to be coupled with other policies to support south-east Asia, such as an effort to revive the regional bond market.

NEWS DIGEST

CAPITAL ADEQUACY TEST

Bank Indonesia offers boost to ailing banks

Indonesia's central bank yesterday offered to stimulate recapitalisation of the troubled banking sector by injecting four rupiah for every rupiah offered by shareholders and investors.

Syahril Sabirin, governor of Bank Indonesia, said banks with capital adequacy ratios below 4 per cent had a month to submit a business plan for raising the ratio to 8 per cent and reducing exposure to affiliated parties. Banks which fail to attract new funds risk closure, he said.

This matching fund approach had been pushed by the International Monetary Fund as a way to keep liquid banks afloat, rather than just bail out collapsed banks as the government has attempted so far, mostly in vain.

The government would take a non-voting share in any bank it helps to recapitalise and offer those shares for sale after three years. Banks owe the government Rp150,000bn (\$13.8bn), plus interest. Finance minister Bambang Subianto said yesterday 14 collapsed banks would have to repay the government in cash, abandoning efforts to negotiate a handover of assets that had been widely criticised as too soft. Sander Thoenes, Jakarta

THAI POLITICS

Coalition faces shake-up

The Thai government was yesterday on the verge of a coalition and cabinet reshuffle that is likely to increase substantially the government's majority in parliament but could result in the break-up of the economic policy-making team led by the ruling Democrat party.

Coalition members feel they need Chuan Pattana, the third largest party with 52 seats in the 393-seat parliament, to stabilise a government rocked by both corruption allegations against one coalition partner and the likely loss of 12 MPs expected to be expelled from parliament for denying their party leader and supporting the government.

But Chuan Pattana is demanding minister or deputy minister portfolios in economic ministries including finance, commerce, industry, transport and communications, labour and foreign affairs. Ted Bardacke, Bangkok

HONG KONG

Foreign currency deposits grow

Foreign currency deposits in Hong Kong grew much faster than deposits in the Hong Kong dollar last month, reflecting anxieties about the territory's exchange rate peg to the US dollar and a severe speculative assault on the Hong Kong currency.

Figures released yesterday by the Hong Kong Monetary Authority, the territory's de facto central bank, showed US dollar deposits increased by 5.5 per cent from the end of July to the end of August. By contrast, total Hong Kong dollar deposits rose by just 0.6 per cent, with demand and savings deposits both falling.

While the authorities defeated the August assault on the 15-year currency peg, yesterday's statistics suggest the Hong Kong public has sought to hedge its currency exposure. John Riddling, Hong Kong

SOUTH KOREA

Bank protest strike cancelled

A strike at nine South Korean banks to protest at job cuts was cancelled yesterday as labour-management talks continued. Workers appeared ready to accept an offer of a 32 per cent reduction in jobs, scaled back from 40 per cent, as a result of mergers among the nine banks.

The strikes had threatened to disrupt some of Korea's biggest and weakest banks including Korea First, Chongwon, Korea Exchange, Hanil, Commercial Bank of Korea, Kangwon, Chungbuk, Seoulbank, and Peace Bank.

The banking union had planned an indefinite strike by 36,000 workers starting at midnight yesterday to oppose an expected cut of 12,000 jobs. The government had warned the unions it would deal sternly with what it called an "illegal action". John Burton, Seoul

Stimulus measure may be brought forward

By Michio Nakamoto in Tokyo

The Japanese government yesterday indicated it was considering bringing forward a planned second supplementary budget, worth ¥16,000bn (\$138bn) aimed at stimulating the economy.

Hiromu Nonaka, chief cabinet secretary, said a second emergency Diet meeting could be convened in

November so the government could try to pass the supplementary budget.

Mr Nonaka admitted the first supplementary budget implemented in fiscal 1998, worth ¥16,000bn, was not having the desired effect of boosting the Japanese economy. "It cannot be helped if it is pointed out that the economy is shrinking," Mr Nonaka said.

The government will also consider bringing forward planned tax cuts, worth ¥6,000bn which Keizo Obuchi, the prime minister, has pledged to implement.

The government had planned to get the supplementary budget passed during the plenary Diet session to be convened in January. However, Japan is under growing pressure from trad-

ing partners to act quickly to boost the economy.

Yesterday, the ruling Liberal Democratic party failed to present its proposal on a scheme that would take the piece of a ¥13,000bn fund set aside to recapitalise weak but viable banks. Such a scheme is considered crucial to restoring the capital adequacy of healthy banks and preventing systemic risk.

The LDP's proposal, which calls for the government to buy common shares in banks in proportion to the extent of their capital adequacy ratios, was scheduled to be presented to the opposition yesterday but met with resistance from within the party. "The LDP is having trouble forming a unified stance," said an opposition official.

Under the LDP proposal, the government would buy less than 50 per cent of common shares in a bank with a capital ratio of between 8 per cent and 4 per cent and more than 51 per cent for banks whose capital ratio is under 4 per cent but above 2 per cent. Banks with a capital ratio of less than 2 per cent would be put under public administration.

China assures foreigners over currency curbs

By James Kyng in Beijing

Chinese officials are sparing little effort in reassuring foreigners that a spate of new controls on foreign currency transactions do not signal a retreat from the country's much vaunted "open door" policy.

They say yesterday's measures to combat capital flight are the temporary product of "unusual circumstances". But many in the foreign business community worry that unusual circumstances could last an unusually long time.

The pressures causing alarming outflows of foreign currency may be slow to dissipate. Companies are concerned that China may have to devalue because of its worsening trade performance and because of the slowdown in a wider economy plagued by chronic oversupply and deepening deflation. Exports fell 2.4 per cent in August, from the same month a year ago. Last year, they climbed 30.9 per cent for the whole year.

Individuals, who according to official figures hold \$80bn in foreign currency, also appear increasingly con-



Wu Xiaoling: Chinese import agents to be investigated Reuters

vinced that China may have to devalue some time next year. The recent reluctance of officials to pledge that the renminbi will not be allowed to depreciate in 1999 has bolstered such convictions.

It seems likely therefore that foreign companies trading or investing in China may have to contend for some time with the side-effects of Beijing's battle with capital flight.

"They do not want to make life more difficult for us but our interests are being sacrificed to a greater cause, and may continue to be for some time," said one foreign banker in Beijing.

Foreign investors find themselves unable to hedge foreign debt exposure because of a State Administration of Foreign Exchange (SAFE) prohibition on Chinese banks lending renminbi

'Not another dollar,' threatens US power investor

AES Corporation, one of the largest foreign investors in China's power sector, says it will not invest "another dollar" until authorities resolve problems that have hit the company's revenues, James Kyng reports from Beijing. The decision is one of the clearest signals of growing discontent among foreign businesses as China's slowing economic growth puts strains on revenue-sharing deals and a spate of recent foreign currency regulations throw corporate plans into disarray.

"Every month, someone

tries to break a contract, or get out of some sort of payment," said Bill Ruccius, president and chief executive of AES Orient, north Asia division of AES Corporation, one of the world's largest power companies. Mr Ruccius said AES, which has invested \$380m in China in nine power projects with total capacity of 3,000MW, has a long-term commitment to China. But he added "things are going to have to change a lot" before the company invested more.

He said if problems were ironed out, the company could double its investment

in China over the next one or two years.

One key issue, Mr Ruccius said, was that the State Development Planning Commission, an influential central government organ, had not yet approved scheduled 1998 tariff increases for six of AES's power projects. Tariff increases are not retroactive.

Another blow has been payment delays by clients, such as an aluminium plant and a city authority, for the power they have received. Some clients no longer need all the power they are contracted to buy.

fears of devaluation. Another consequence of yesterday's measures could be felt by foreign banks and companies that export to China. Many exporters sell their goods to Chinese import agents, which buy the products with hard currency loans from foreign banks. But these import agents are now the subject of SAFE investigations into whether they used fake doc-

uments to shift foreign currency offshore. If they are found to have generated more than \$1m in illegal dealings, their trade licences will be revoked, said Ms Wu.

The number may be large because forged documents representing "several billions" of dollars have been uncovered. This may mean that foreign exporters are forced to find different agents.

Howard counters racism claims

By Owen Robinson in Brisbane, Queensland

John Howard, Australia's prime minister, yesterday replied to fresh accusations of racism against his conservative coalition by campaigning in Queensland for a Vietnamese-born candidate standing for his Liberal party in Saturday's general election.

Hours later, he repeated earlier pleas for supporters

of minority parties, including the populist One Nation party, to direct their secondary, or preference, votes to his coalition.

Mr Howard's moves highlight the increasingly tense nature of the campaign's final days, as polls continued to show equal levels of support for the coalition and the opposition Labor party.

The prime minister's endorsement of Cuong Bui, who came to Australia as a

refugee 25 years ago, was aimed at damping controversy over remarks by Tim Fischer, deputy prime minister and leader of the National party, the Liberals' coalition partner.

On Monday, Mr Fischer said Aboriginal land councils, which oversee native claims, had become "blood-sucking" bureaucracies which took resources away from small Aboriginal communities.

Opposition groups accused the coalition of bringing racism into the campaign, a criticism that seemed to fire Mr Howard's rhetoric at a gathering of mostly Asian-born Australians in Brisbane.

"We should always be on guard against people who would divide the community on racial lines," he said, in reference to One Nation and its leader, independent MP Pauline Hanson. "This country belongs as much to Cuong Bui as it does to me."

Mr Bui is contesting the seat of Rankin, which borders Ms Hanson's former electorate of Oxley. Mr Howard later said he broadly agreed with Mr Fischer's concerns that money for indigenous people was being wasted at the administrative level, but denied the remarks were intended to woo One Nation supporters.

In speeches and television broadcasts, Mr Howard said: "If people voting for minor parties, be it the Greens, be it the Democrats, be it One Nation - if they don't want a Labor government, then they should take care to direct their preferences to the coalition."

He also spoke about the widening crisis in Victoria, where a gas plant explosion last Friday has crippled industry and caused thousands of job losses by leaving most of the state without power supplies. The coalition is concerned that public anger could grow toward the state's Liberal government and affect the coalition's chances. Mr Howard repeated an offer to try to help laid-off workers, but said the disaster should not become an election issue.

INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-point values.

Employment rates is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-period values.																	
■ UNITED STATES						■ JAPAN						■ GERMANY					
	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate	Composite leading indicator		Retail sales volume	Industrial production	Unemployment rate	Vacancy rate	Composite leading indicator		Retail sales volume	Industrial production	Unemployment rate	Vacancy rate	Composite leading indicator
1988	113.0	110.7	5.4	104.9	100.6	1988	122.6	113.1	2.5	135.2	98.4	1988	108.1	106.3	6.2	118.1	92.7
1989	115.5	112.7	5.2	97.9	100.1	1989	123.6	119.7	2.2	146.3	102.4	1989	111.9	111.4	5.6	121.5	96.7
1990	116.2	112.4	5.5	92.7	93.7	1990	141.6	124.5	2.1	148.8	99.9	1990	119.7	117.2	4.8	201.9	98.3
1991	112.3	110.2	6.8	91.7	96.1	1991	144.5	128.6	2.1	144.2	95.3	1991	125.0	121.7	4.2	257.9	95.5
1992	117.0	113.6	7.4	91.6	103.2	1992	139.7	129.0	2.1	124.2	91.0	1992	122.8	120.0	7.7	223.0	93.5
1993	122.2	117.7	6.8	87.7	108.8	1993	131.7	113.6	2.5	105.8	92.5	1993	119.7	112.6	7.9	223.0	93.5
1994	128.2	124.0	6.0	79.0	112.8	1994	129.4	114.5	2.9	99.4	97.4	1994	117.6	117.6	6.4	241.2	102.4
1995	132.6	130.2	5.5	79.3	115.8	1995	128.4	118.5	3.1	103.2	99.6	1995	119.5	119.4	6.2	268.8	98.1
1996	137.5	134.7	5.4	77.0	120.6	1996	132.6	126.1	3.3	115.3	106.8	1996	117.2	119.0	6.8	274.1	101.7
1997	143.0	141.4	4.9	78.0	127.9	1997	126.8	121.8	3.4	120.6	97.7	1997	115.7	112.5	6.7	282.8	109.9
3rd qtr:1997	4.2	4.9	4.8	78.9	127.9		-1.5	3.9	3.4	121.0	99.6		-3.1	2.7	10.1	286.1	109.6
4th qtr:1997	4.0	5.8	4.8	80.0	127.9		-2.9	-0.7	3.4	118.7	97.7		-1.4	3.3	10.3	238.3	109.3
1st qtr:1998	5.1	4.7	4.6	81.7	125.0		-9.0	-3.9	3.6	110.4	96.8		0.5	5.7	10.0	218.6	111.7
2nd qtr:1998	7.8	4.0	4.4	80.3	128.2		-8.5			104.2	96.9		-1.4	3.4	9.8	363.9	111.9
September	4.2	5.0	4.3	80.4	127.9		-2.0	4.2	3.4	122.1	99.6		-3.4	1.4	10.2	289.1	109.6
October	3.4	5.8	4.7	78.5	128.5		-2.3	3.1	3.4	119.7	99.7		-2.3	1.8	10.3	295.5	109.4
November	-2.2	5.8	4.6	82.6	128.2		-2.1	-2.7	3.5	116.7	98.4		-2.3	2.9	10.3	300.8	109.0
December	4.6	5.7	4.6	82.6	127.9		-4.4	-0.9	3.4	119.5	97.7		-2.6	3.2	10.3	301.6	109.3
January 1998	4.9	5.4	4.6	82.2	128.0		-1.8	-2.6	3.5	119.0	97.6		0.6	7.8	10.1	301.6	110.0
February	4.9	4.3	4.6	82.2	128.0		-1.8	-2.6	3.5	119.0	97.6		-0.1	4.9	10.0	317.5	111.0
March	5.5	4.5	4.7	83.2	129.0		-18.0	-6.1	3.8	112.0	96.8		-1.1	4.4	10.0	317.5	111.0
April	7.0	4.3	4.3	82.0	128.8		10.8	-6.6	4.1	105.7	98.2		-1.3	3.0	10.0	352.5	111.5
May	8.2	4.6	4.3	81.2	128.4		-11.2	4.3			96.4		-0.1	5.5	9.8	369.1	111.7
June	7.8	3.2	4.5	81.3	128.2		-7.6				96.8		-2.9	1.6	9.7	371.6	111.9
July	5.6	2.0					-9.2				97.5		2.6	2.8	9.6		111.8
August	3.1																
3rd qtr:1997	1.7	5.1	12.5	105.5			8.7	3.4	12.1	112.9			5.3	1.5	6.8	103.3	114.7
4th qtr:1997	3.0	6.4	12.4	106.7			7.9	5.6	12.1	114.9			5.6	0.5	6.5	105.0	115.0
1st qtr:1998	2.3	7.3	12.1	108.4			3.4	12.1	116.9				5.2	0.3	6.4	110.0	115.0
2nd qtr:1998	3.3	5.1	11.9	109.3			1.3			114.2			3.6	1.0		108.5	114.0
September	3.5	4.5	12.5	105.5			8.2	2.4	n.a.	112.9			3.9	1.4	6.7	108.5	114.7
October	4.4	6.8	12.5	106.5			8.4	4.5	n.a.	113.2			6.5	1.4	6.7	113.3	115.4
November	-0.5	5.1	12.4	106.8			7.4	4.5	n.a.	113.9			4.8	0.5	6.5	107.1	115.8
December	5.3	7.3	12.3	103.7			7.8	6.8	n.a.	114.9			6.8	-0.1	6.4	160.1	115.5
January 1998	6.7	6.6	12.2	107.0			6.5	n.a.	116.3				4.8	0.0	6.5	160.3	115.5
February	2.0	6.7	12.1	107.6			1.3	n.a.	116.9				4.3	1.1	6.4	161.4	115.1
March	-0.8	6.5	12.0	107.8			0.7	n.a.	116.3				4.7	1.5	6.2	162.1	114.7
April	4.0	4.0	11.9	108.8			2.9	n.a.	116.0				4.7	1.5	6.2	162.1	114.7
May	1.2	5.8	11.9	108.9			0.3	n.a.	114.2				2.0	1.2	6.2	162.1	114.7
June	4.9	5.3	11.9	109.3			0.3	n.a.	114.2				2.0	1.2	6.2	162.1	114.7
July	2.9		11.8	110.0			1.6						3.1	0.0		169.5	114.9
August													2.8	0.0			115.6

SCOTLAND MPS DEMAND PROBE INTO GOVERNMENT ASSISTANCE AS US GROUP REVEALS TWO PLANTS TO CLOSE

Viasystems to shed 1,300 jobs

By Kevin Brown and Andrew Parker

Viasystems, a privately-owned US company based in St Louis, is to shed 1,300 jobs from two plants in the Borders area of Scotland. The revelation prompted Scottish MPs to call for an investigation into the use of public money for the company's plant in Newcastle, in north-east England, which employs 450 people and is expected to expand further.

Viasystems said it would close its printed circuit board plant in Glasgow in January. The factory in Selkirk will close in June. The closures are a substantial blow to the Borders region, which has suffered hundreds of job losses recently because of retrenchment by Dawson International, the textiles group which owns Pringle knitwear and other local companies.

Viasystems, the world's biggest independent manufacturer of PCBs, said the closure followed a strategic review of operations in Europe, where it has expanded rapidly over the past year. R.V. Linn, the company's European vice-president, said the "timing and severity" of the announcement reflected the strength of the pound and softness in the world market for PCBs.

But Michael Moore and Archie Kirkwood, the opposition Liberal Democrat MPs for the Borders area, said there should be an inquiry into the provision of grants for the Newcastle plant. "This is absolutely horrific for the Borders. It is ripping the heart out of the local economy," said Mr Moore. "People feel that their jobs are simply being transferred in such a way that the export of jobs is being subsidised by the taxpayer."

Mr Moore said the closure announcement underlined the unfairness of regional selective assistance, which is available in areas of central Scotland and the north-east of England but not in the Borders. "At the very least, people north and south of the [Scottish] border are entitled to know what has gone on here," he said.

Privatised trains may need engines replacing

By Charles Batchelor, Transport Correspondent

Britain's privatised train companies face penalties amounting to millions of pounds for cancellations caused by the unreliability of relatively new trains. Three companies are already struggling to meet performance targets because of trains that are only six years old.

The problem with many trains inherited from British Rail, the former state network, was that they were designed to meet tight cost constraints rather than to maximise reliability when BR was working under tough budget limits imposed by the government, industry observers said. Thames Trains, which runs services between London and south-west England, may have to renew all the motors on its fleet because they are so unreliable.

Chiltern Railways, which runs trains between London and Birmingham in the English midlands, said it was replacing the defective diesel motors on its trains at a cost of £28,000 (£47,040) each. The company was last month forced to provide £2.5m worth of passenger improvements by the franchising director to compensate for a sharp increase in cancellations.

Connex Rail, part of CGEA, the transport subsidiary of Vivendi, a French utilities group, said there were "deep-seated" design problems with its six-year-old Networker trains, including faulty doors and traction motor mountings.

Thames is looking at the possibility of modifying the engines. It has 64 trains with two motors in each wagon and may have to renew 320. "The engines are becoming increasingly unreliable and we face significant problems to replace them," said Martin Ballinger, managing director of Go-Ahead, the bus and rail group which owns the Thames franchise. Breakdowns are causing Thames to miss its performance targets, prompting penalty payments.

The company said it experienced breakdowns on average every 17,700km, compared with a frequency of 56,000-65,000km on the best performing versions of this type of train. Thames and Chiltern trains use diesel engines made by Perkins, owned by Caterpillar, the world's biggest maker of construction equipment.

However, the biggest threat to company profits is unlikely to be Asia or the strong pound. Wages account for two-thirds of company costs and private sector pay increased from 4.8 per cent in June to 5 per cent in July. "Pay increases have been more of a problem in the latest cycle on profits than prices have," says Richard Iley, economist at ABN Amro. The number of jobsless is at an 18-year low and many firms are struggling to contain wage costs.

LABOUR CONFERENCE

Blair outlines reform package to party

By Robert Peston, Political Editor

Tony Blair, the prime minister, yesterday set the government on course for a contentious package of reforms to the welfare state and education system, while resisting pressure to soften his anti-inflation campaign. In an uncompromising speech to the governing Labour party's annual conference, marking its seventeenth month in power, he insisted it was "better to be unpopular than wrong".

Vowing there would be no U-turns on the principles underlying the modernisation of his party, he said the electorate wanted a government "not in the pocket of the trade unions, not taking them through the roof, not chasing after every passing fad of the political fringe". It was intended to sound the death knell of Labour's left and its old right. In particular, Mr Blair said he would resist all calls to "scrap the Bank of England's (the UK central bank) independence and intervene to devalue the pound". He added: "We've sacrificed long-term strength far too often playing that game."



Ovation: Tony Blair and wife Cherie greet supporters after his speech to the Labour party conference in Blackpool

If that was addressed particularly to critics in the trade union movement, he also lectured business. "Your fundamental problem is not high interest rates or a high pound," he said. "It is too few first-class managers, too little investment, too little productivity." There were a handful of policy announcements, including a proposed requirement on all new welfare claimants, including lone parents and the disabled, to have an interview before qualifying for benefit payments.

Intended to help them look for work, it will be attacked by some lobby groups as likely to deter disadvantaged individuals from claiming their entitlements. Mr Blair unveiled a new programme to improve cancer services, tapping £400m (£672m) of National Lottery proceeds. He confirmed that the government's programme for the next parliament would include a welfare reform bill, the beginning of the difficult process of tightening conditions for claiming disability benefits and possibly the first stage of a comprehensive pensions overhaul.

There was also strong backing for David Blunkett, the chief education minister, and his plan to gear teachers' pay more closely to performance and make it easier to sack bad teachers. He gave a preview of a forthcoming government paper on the family, which would concentrate on practical support. Meanwhile the prime minister attempted to deflect complaints that his plans to remove hereditary peers from the House of Lords would give him unprecedented patronage powers.

See Editorial Comment

Ministry 'failed to act on BSE loopholes'

By Gautam Malkani

Abattoirs would have paid more heed to regulations aimed at protecting the public from BSE if they had been properly policed by the agriculture ministry, the inquiry into the crisis was told yesterday. The inquiry heard last week that it was not until 1995 that officials realised safeguards against BSE introduced in November 1989 were not being properly observed.

Peter Carrigan, a consultant technologist to the meat industry who has worked in the abattoir industry, said in written evidence that "the regulations might not have existed at all" given the effectiveness of the inspections. In a letter to Keith Meldrum, the chief veterinary officer, dated June 12 1995, Mr Carrigan said: "Put simply, people have cheated, and will continue to do so because the legislation, updated though it may be, has gaps in it large enough to accommodate a horse and cart."

He added that "there have been businesses like mine and others who have suffered terribly because we have stuck to the rules". In his reply, Mr Meldrum rejected as "not practical in law" the recommendation to make meat inspectors responsible for staining specified bovine material, such as spinal cord and brain, that carry the infective agent. The regulations

demanded that these be removed from cattle carcasses to stop them entering the human food chain. The rules, together with a ban on meat and bone meal, was the government's main line of defence against the risk to human health. It is now thought that there is a link between BSE and new variant Creutzfeldt-Jakob Disease, the fatal human brain condition. Mr Carrigan later said: "I would think that when someone of my experience

sent a letter like that to the CVO in the middle of a national crisis they would have adapted but they didn't until much later." The ministry had been alerted to these concerns as early as December 12 1990 in a separate letter from Mr Carrigan to Alan Lawrence at the ministry, which said: "I'm sorry to have to report that the rules on staining are being grossly flouted and there are areas which require your very urgent attention."

Corporate chiefs' crystal ball gazing sees apocalypse now

A raft of profit warnings suggests that the downturn has spread from manufacturing to other sectors. Christopher Adams reports

An avalanche of profit warnings and dismal trading updates from British companies has deepened the gloom surrounding the UK economy. Crystal ball gazing by corporate executives has become increasingly apocalyptic in recent weeks. Companies as varied as Diageo, the food and drinks conglomerate, Shell, the oil giant, EMI, the music group and John Lewis and Kingfisher, the retailers - as well as logistics and packaging groups - have echoed downbeat comments from BTR, Charter, Scapa and Royal Doulton, all manufacturers.

Sundhir Jnanekar, associate director of economic analysis at the Confederation of British Industry, the employers' lobby, says profit warnings across a broad swathe of UK business show the downturn in manufacturing has begun to spread to other parts of the economy. "They are a clear signal the economy is beginning to slow," he says. The CBI is forecasting company profits to grow by 0.1 per cent in 1999, compared with 0.7 per cent this year and 3 per cent in 1997. "Revisions to consensus earnings estimates have

come through in cyclical areas: chemicals, steel, pulp and capital goods," says Ian Scott, equity strategist at Lehman Brothers. "The fear is that the slowdown in Asia will transmit to western economies." Many companies, especially those in the service sector, are sheltered from the immediate effects of the strong pound and economic crisis in Asia because they do not export substantial quantities. But the malaise could spread as fears over job losses grow and consumer spending falls. The latest retail sales data show that underlying profits growth in spending slowed last month to its lowest rate in two years. But fears over the scale of a wider down-

turn could be exaggerated, say analysts. The causes of pessimism in the engineering sector, for example, are different to those in the retail sector. For retailers, says John Richards, analyst at BT Alex Brown, the key issue is the extent to which their industry has matured. "There is much excess capacity and it's difficult to get rid of that," he adds. Retailers have attributed the recent slowdown in spending to a variety of one-off factors. John Lewis, regarded as an indicator of future trends in the sector, two weeks ago reported its first underlying profits decline in five years. But the 5 per cent slide in first-half profitability this year was attributed to the

effects of unseasonal weather and the absence of windfall payments from building societies - savings and loans institutions whose members voted to abandon their mutually-owned status and opt for a public offering. Audio, television and electrical equipment bore the brunt - expensive purchases, but also areas where Asian imports have become much more cheaply priced. Those searching for an indicator of how exaggerated concerns over the economy have become could look at the share prices of housebuilders, which have fallen sharply on signs of slowing house price inflation. Analysts say the falls show investors are factoring

in a decline of up to 40 per cent in earnings next year, nearly double the decline factored into consensus estimates. "House prices are rising more slowly, but the trend is still upward," says Mark Hake of Merrill Lynch. However, the biggest threat to company profits is unlikely to be Asia or the strong pound. Wages account for two-thirds of company costs and private sector pay increased from 4.8 per cent in June to 5 per cent in July. "Pay increases have been more of a problem in the latest cycle on profits than prices have," says Richard Iley, economist at ABN Amro. The number of jobsless is at an 18-year low and many firms are struggling to contain wage costs.

NEWS DIGEST

COMPETITION

Water groups accused of excessive price increases

The UK's privatised water companies were yesterday criticised for reselling competition and allowing water price rises to industry to outpace inflation increases. The UK last year had the sixth most expensive water costs in a survey of 15 industrialised nations carried out by National Utility Services, which provides utility cost control services to 750,000 businesses around the world. Water cost 70.55p (£1.17) a cubic metre, based on a business consumer occupying a 4,050 sq m city centre office block. Germany was the most expensive at 113.94p followed by Denmark at 97.81p; Belgium at 92.1p; Netherlands at 74.96p and France at 73.54p. Average water costs at five US cities were 30.64p a cubic metre. Cheapest water costs were in Canada at 24.02p. NUS reported that UK prices had risen by more than 20 per cent in five years and by 6.28 per cent in the 12 months to the end of July. It said that UK water companies continued to operate largely as regional monopolies "opposing any intrusion into their domain". Water UK, which represents water companies, said its members did not oppose competition but were concerned that companies could "cherry pick" customers in areas of high demand, leaving consumers in rural and more remote areas to pay higher bills. Andrew Taylor, London

OFFSHORE COMPANIES

Islands fight publication move

Jersey, Guernsey and the Isle of Man are to fight a possible UK government proposal to force all companies on the islands to publish their accounts. The proposal was contained in a leaked draft of a Home Office report into financial regulation on the islands, which are Crown dependencies but not subject to UK law. Jersey and Guernsey are in the English Channel between England and France; the Isle of Man is in the Irish Sea. The islands' governments are reluctant to comment. But the leaked proposals were attacked by Laurie Morgan, president of the advisory and finance committee of the States of Guernsey, the Channel island's parliament. He is expected to voice his concerns in a statement today. The report on the islands, by Andrew Edwards, a Treasury official, was commissioned because of government concern that loopholes in regulation might be allowing financial crime. The islands believe their financial services industries are well regulated. The move is likely to be strongly resisted because many other jurisdictions - including US states such as Delaware and Nevada - also exempt some companies from filing public accounts. Robert Wright, London

SULTANATE OF BRUNEI

KPMG appeals against ruling

KPMG, the Big Five accountancy firm, yesterday began its attempt in the Court of Appeal to overturn an injunction granted in favour of Prince Jefri of Brunei, the disaffected younger brother of the Sultan. Prince Jefri said KPMG should stop working for the Brunei Investment Agency in its quest for funds missing from the troubled sultanate. He said there was a risk KPMG would accidentally leak information about his personal affairs as they had acted for him in the past. David Donaldson, QC, KPMG's lawyer, argued that so-called Chinese-walls would protect the prince. He added there was "dismay" in Brunei when investigations came to a "grinding halt" under the injunction as the amounts involved totalled "several billion dollars". Judgment is expected this week. Jim Kelly, London

CINEMA

Virgin plans US-style megaplex

Richard Branson's Virgin Group is spending £8.5m (£14m) to build a 20-screen cinema complex in Sheffield, northern England, which it claims will be a UK version of a US-style megaplex including the biggest screen in the country. It is common for several very big cinema complexes to operate in the same cities in North America, but not in the UK, where the market is less mature. But the opening in early November of the Sheffield "megaplex" - which Virgin defines as a combination of 15 or more screens and big retail facilities - will mark a watershed in the UK cinema business because it will compete directly against a Warner Village 11-screen complex a few miles away at Meadowhall. Warner Village is a joint venture between Time Warner and Village Roadshow, the US and Australian media groups. Warner Village also plans a £12m 14-screen city centre multiplex in Sheffield in spring 2000. The move should indicate whether several big complexes can trade successfully in the same area. Alice Rawsthorn, London

AIRPORT DEVELOPMENTS

6,000 jobs to be created

More than 6,000 jobs are expected to be created in the next five years in two separate airport developments in the north of England. Peel Holdings, a property group, has won government approval for plans to invest £30m (£50m) in a new terminal at Liverpool Airport, in which the company owns a majority stake. Peel has also won preferred purchaser status from the Ministry of Defence for the former Royal Air Force station near Doncaster, which the company wants to develop as a commercial airport serving international flights and freight services. The Liverpool development is expected to win £8m in European regional development funding. The airport would be capable of handling 3m. Sheila Jones, Manchester

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Welcome to corporate-land

Business parks not only appear to hold more attractions for employers than standard offices, they also outperform them

When it comes to choosing a site for a large corporate headquarters, suburbia, it seems, holds more attractions for the employer than downtown.

The suburban business park, an oxymoron to some, has become an established feature of the UK property market, just as it did several decades earlier in the US. Research from both sides of the Atlantic suggest that these business parks, over time, outperform their counterparts in Central Business Districts (CBDs).

New research to be released next week by Strutt & Parker, the property consultancy specialising in business parks, and the Investment Property DataBank, the leading UK property performance index, shows that business parks have outperformed standard offices in the UK by an average of nearly 50 per cent a

year between 1986 and 1997. Between these years, business parks, as defined by Strutt & Parker, produced average annualised returns of 12.2 per cent against 8.6 per cent for standard offices. When individual business park returns are compared with offices in their immediate

'They lure the highly skilled suburban female workforce'

ate area, the results are equally startling. Arlington Securities' Aztec West development, near the UK city of Bristol, for instance, offered average annualised total returns over the three years to December 1997 of 7.4 per cent, roughly twice that of

local offices. At Stockley Park, near Heathrow, west of London, the returns for the comparable period were 13.6 per cent against 10.5 per cent for standard offices. In every year since 1988, business parks outperformed standard offices, barring a year of exceptional office out-performance in 1993.

Perhaps coincidentally, that trend is similarly reflected in research from LaSalle Partners, the Chicago-based real estate consultancy, which found that suburban-based office properties substantially outperformed CBD-based offices in the US in every year since 1989. Before then, CBD offices were outperformers.

The LaSalle data include non-business park properties but the overall picture cannot be discounted.

Andrew Martin, partner at Strutt & Parker with responsibility for business parks,

says the reason for out-performance is simple. "The truth of the matter is that these are what the occupiers really wanted."

Increasingly, the employers most eager for business park space are those eager to recruit large numbers of highly skilled - and highly paid - workers.

Jacques Gordon, head of research at LaSalle Partners, advances a theory first put forward by Bill Wheaton, head of Massachusetts Institute of Technology's Centre for Real Estate and founder of CB Richard Ellis/Torco Wheaton, a consultancy.

The real attraction of business parks is that they lure the highly skilled suburban-based female workforce. Mr Wheaton calculates that employers would have to spend 15 to 20 per cent more in wages to attract the same calibre of staff in a CBD environment.

Women workers, in particular, he says, are attracted



Working example: Microsoft's campus in Washington

by employment a short drive from home in pleasant surroundings located close to amenities that enable them to pick up groceries.

For that reason, both Mr Martin and Mr Gordon say, the differentials in the quality of the project make a large impact on a business park's ultimate value.

"The amenity packages that tenants are looking for are certainly key," says Mr Gordon. "They are looking for a beautiful environment."

The purpose of a business park, he argues, "is to keep the employee on campus and productive. They want to

keep employees working eight, nine, 10 hours a day."

Some of the US's best business parks are Microsoft's Overlake Campus, some 4m sq ft consisting of 48 buildings outside Redmond, Washington, as well as Nike's campus at Beaverton, Oregon.

"What they all have in common is the goal to control the work environment," Mr Gordon says. "The provision of childcare and other services 'is enlightened self-interest'."

"When you drive into the business park," Mr Gordon concludes, "you are in corporate-land."



JOHN KAY

A scientific formula for playing games in the dark

Mathematician John Nash's equilibrium theory can help us think about problems - but not necessarily solve them

Two star-crossed lovers - let us call them Linda and John - have a date this evening. But, once again, John has let the battery on his mobile phone go flat. They cannot talk to each other. What should they do?

John Nash, whose biography has just been published (*A Beautiful Mind*, Sylvia Nasar, Faber & Faber), is an American mathematician who devised a framework for thinking about such problems - the theory of non-co-operative games. Two or more agents make independent decisions and the outcome depends, for better or worse, on the interaction between them. That is the situation faced by Linda and John. Everyone engaged in business, politics, or everyday life plays non-co-operative games again and again.

John sits there thinking "what will Linda do?" What she will do will depend, in turn, on what she thinks John will do. But what John will do depends, in turn, on what John thinks Linda thinks that John will do. And so on, for ever.

But suppose Linda and John share a favourite restaurant - the Elizabeth in Oxford, perhaps. Then Linda might think: suppose John were to be at the Elizabeth, what would be the best course of action for me? To go to the Elizabeth, of course. And the same is true for Linda. So even without a chat on the mobile phone, it would seem to make good sense for each to turn up at the Elizabeth.

That happy event is a Nash equilibrium. It cuts through endless rounds of speculation about the motives of others. Is there an outcome in which everyone is doing what is best for them, given the choices which have been made by everyone else? That is the definition of a Nash equilibrium. If the concept seems rather obvious, it demonstrates that Nash's idea has one of the hallmarks of real scientific originality. It is obvious once it has been pointed out to you. It wasn't before.

Still, there are problems to which the Nash solution is less trite than the recommendation to go to the Elizabeth at eight. Take the familiar business problem of how much capacity to build. The price you realise for your output depends on the total amount of capacity which everyone installs. This has a precise Nash equilibrium solution.

The total amount of capacity which will be built increases with the number of companies which enter - but at a diminishing rate - and the amount of excess capacity will rise with the ratio of fixed to variable costs. We can write out the mathematics of it. And understand better why industries with higher fixed costs are prone to cyclical instability, why they experience periods of acute price competition, and tend to be subject to cartels and to regular phases of

rationalisation and consolidation.

But a Nash equilibrium is a funny kind of solution. It need not be the outcome.

Linda might get fed up and go home. John might have misunderstood what Linda said about the Elizabeth. And Linda and John could have found each other in many different Nash equilibria. If they want to be together sufficiently then meeting in a greasy spoon cafe is another solution.

If there are many Nash equilibria, and there are often, then better ones should be preferred to worse. Still, it can happen the other way round. The QWERTY layout for keyboards is grossly inefficient. It was invented to slow users down in the days when typewriter keys were liable to jam.

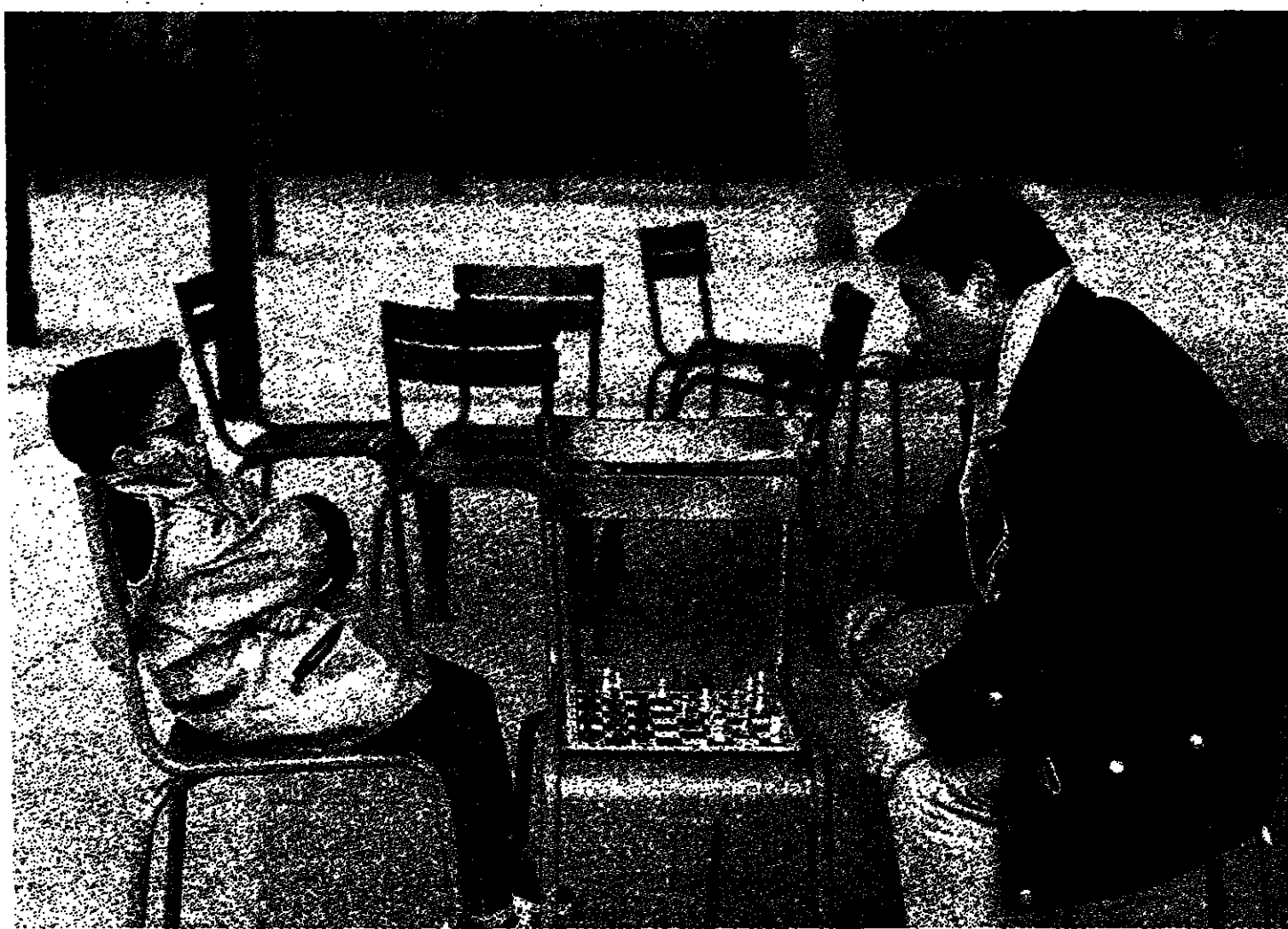
Other systems, like the Dvorak layout, are simpler and quicker to use. But if most machines are made in QWERTY, the sensible thing to do is to learn and use QWERTY. And that is true for everyone else. Which is why we are stuck, for ever, with an inefficient Nash equilibrium. It is a demonstration of the power of the concept. Having reached a Nash equilibrium, we cannot leave it.

More confusing still are the cases where several Nash equilibria are equally good. Suppose John likes the Elizabeth but Linda prefers the Petit Blanc. If each follows their own preference, each will dine alone. But if Linda goes to the Elizabeth, she takes the risk that John, with equivalent altruism, will be at Le Petit Blanc - leaving them with the worse of all outcomes, in which they dine separately at their least preferred restaurants. The game is called the Battle of the Sexes by mathematicians, because it displays familiar features of personal relationships - lack of communication, confusion, and scope for the best of motives to be misunderstood.

But the Battle of the Sexes is actually the universal problem of co-ordination in business. It does not matter much what the outcome is, only that we should all pursue the same actions. The general answer to this issue is hierarchy. If John's wishes are paramount, the outcome is likely to be better - not just for John, but for Linda. It does not really matter which side of the road we drive on, but it matters a great deal that everyone should drive on the same side of the road, and that is why it is necessary that someone should tell us what to do and that we should obey them.

Not an idea that goes down well in Oxford, or at Princeton, where Nash spent his career. That career - characterised by phases of outstanding originality broken by long bouts of paranoid schizophrenia - is a telling reminder that the originality and sensitivity associated with great insight may actually be disabling, not helpful, in everyday life. But just as we need not admire Mozart's character to enjoy his music, we need not envy Nash's life to benefit from his ideas.

The author is the Peter Moores Director of the Said Business School at Oxford University and a director of London Economics. This column appears fortnightly.



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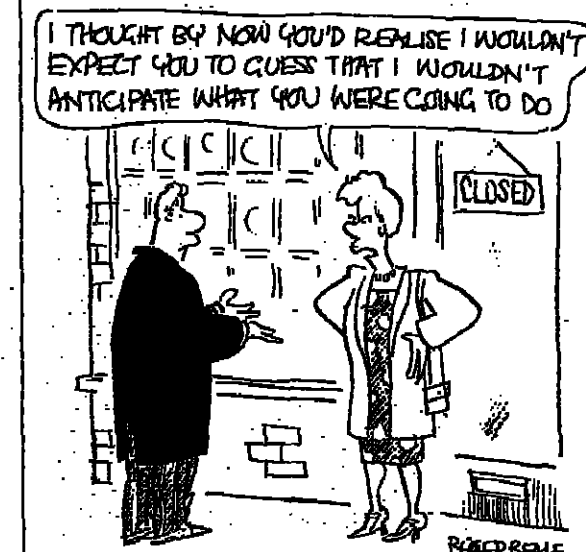
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John, in life

THE ARTS

A star role in the City of Angels?

Christopher Parkes talks to the outgoing director general of LA Opera about his achievements and hopes for the future

Even after 13 years in Los Angeles, Peter Hemmings seems untouched by the core ethos of southern California. In a society obsessed with youth and well-being, where death is considered an option and retirement is for municipal bus drivers, the 64-year-old general director of the Los Angeles Opera is preparing to leave and put his feet up in his native Britain.

To some extent, Hemmings is playing out the role of the good parent. After bringing up the baby and seeing it safely through its troubled adolescence, it is time to step into the background. But the time is also approaching when someone of a rather more heroic nature than this mild-mannered Englishman will be needed to drive the company into a greatly expanded role, and what Hemmings sees as its proper place in the cultural life of the nation's second biggest city and that of the US as a whole.

He has had a bit of a rough ride these past few months, fielding criticisms that the opera's repertoire is too repetitive and conservative. But, as he points out, the whole of opera has a repertoire of about 200 pieces of which maybe 30 are reliable crowd-pleasers. As for innovation, he says about 20 new US operas will premiere this season, including Tobias Picker's adaptation of Roald Dahl's *Fantastic Mr Fox* in LA.

Hemmings is far more concerned about the next stage in the opera's evolution, due to start in 2002, when the city's Philharmonic Orchestra will depart the Dorothy Chandler Music Center and take up residence across the road in the Frank Gehry-designed Walt Disney Concert Hall. That will leave the opera as the music centre's principal tenant, and present it with the challenge of almost doubling today's number of performances from 55 a year to up to 100.

Hemmings' achievements in

her and the company's artistic consultant at the outset, retains strong links. Despite his current commitment as artistic director of the Washington Opera, he is still principal guest conductor and artistic adviser in the City of Angels.

By the tenor's own reckoning, Domingo's voice has about five more years singing in it. After that, he has ambitions to take full charge of an opera company. "He has a lot on his plate," says Hemmings. But the notion that the star could be the perfect fig-

urehead to lead LA Opera is clearly more than a passing fancy, although there are plenty of grander competitors for Domingo's attention. After all, LA's budget of about \$20m is nearly in comparison with the New York Metropolitan's \$170m, and even San Francisco boasts a budget of \$50m.

Even so, Hemmings points out, LA Opera has ridden through the social, seismic and economic shocks of the 1980s and still made its mark in a country which has 110 such companies. The 3,000-plus seat auditorium is routinely filled to more than 90 per cent capacity, and ticket revenues pro-

vide a steady 60 per cent of income needs, leaving well-wishers to donate about \$10m last year.

But now the opera faces the most substantial test since its inception, and Hemmings has no answer to the over-riding question - "whether there is the money and will in the city to advance LA to the topmost ranks". This, he adds, is "possibly tied in with Plácido's future involvement."

Although Los Angeles likes to think of itself as the cultural cap-



General director Peter Hemmings: LA Opera has ridden through the social seismic and economic shocks of the 1980s and still made its mark

The notion that Plácido Domingo could be the perfect figurehead to lead the opera company is clearly more than a passing fancy

guiding the company to prominence from a standing start tally neatly with those of his past. In 1962 he became the inaugural administrator at Scottish Opera, and oversaw the rise of the company and Glasgow in the cultural rankings. He later worked to similar effect as general manager of the Australian Opera, and before moving to LA in his current role in 1984 he was managing director of the London Symphony Orchestra.

In 1986, LA Opera became a producer in its own right, making its debut with Plácido Domingo in Verdi's *Otello*. Domingo, a founding board mem-

ber of the US, its claim is based on film and popular music. And, as evidenced by the 10-year struggle to raise funds to build the Walt Disney memorial concert hall, there is little fellow-feeling between the industrial and establishment branches of the arts. The Disney group contributed a conditional gift of \$25m last year to the hall named for its founder only after years of arm-twisting.

Although prominent film directors have contributed their skills - Herb Ross directed the LA Opera's new production of *La bohème* for the 1998/99 season - such occasions have been rare. Hemmings says the opera needs

Outreach programmes to the Latino community, which comprises about 40 per cent of the local population, and which last year was charmed by the west coast premiere of Mexican composer Daniel Catán's *Florencia en las Amazonas*, seen to be tempering the ethnic mix of the audience and subscription lists.

It is tempting to speculate on how much further this process

could go if Plácido Domingo, born in Spain and reared in Mexico, were to move to California to fulfil his ambition to run a company. Yet more tempting is the prospect that Domingo who, according to Hemmings, draws "legions" of film stars when he sings, could work a similar spell on the actors' employers in Hollywood and bring them finally into LA's inner cultural circle.

An enjoyably smutty fumble

THEATRE
ROBERT HANKS

Cleo, Campling
National Theatre, London SE1

There is a long and honourable tradition among British intellectuals of celebrating smutty humour. It goes back at least as far as George Orwell's 1942 essay on "The Art of Donald McGill", in which he praised the way that McGill's saucy seaside postcards gave expression to "the Sancho Panza view of life".

Terry Johnson is the tradition's foremost living exponent - he tackled the subject in *Hysteria*, with its panoply of Freudian jokes, and in *Dead Funny*, a comedy whose plot is sparked by the death of Benny Hill, and in his latest play he mines the mother-love of post-war British comedy, the Carry On films.

For the occasion, the Lyttelton auditorium has been transformed into a provincial British cinema circa 1970, with glowing, nacreous proscenium and ruffled purple curtains which lift to reveal a cinema screen: the Rank gang is beaten, and crazy music plays over cartoonish credits, instantly recognisable as rip-offs of the Carry On style.

Recognisability turns out to be the chief pleasure of Johnson's production, in fact. After the screen has vanished, revealing the interior of a film-lot caravan, the first laugh goes to Geoffrey Hutchings simply for being recognisable as Sid James: Adam Godley, playing Kenneth Williams, earns a spontaneous round of applause for his first drawled, supercilious "Myatras", and Samantha Spiro's Barbara Windsor is quite uncannily like the real thing - indeed, the real Barbara Windsor, who on the first night was sitting in the stalls, looked in comparison like a shadow projection of the one on stage.

Of course, it is the stars' screen personas we recognise, not the real people. One of Johnson's central themes is the extent to which the actors both resemble and are trapped by their celluloid selves. Sid is a grinning leech, the lecherous seems sordid and desperate. Kenneth is indeed a smugish prude with a taste for vulgarity, but he is also an obsessive self-hater. Men are just as obsessed by Barbara's breasts off-screen as on. This is fertile territory, both for thought and for gags. The production has a gut of sharp double entendres. The best comes during the filming of *Carry On Cleo*, when Kenneth explains that "there's a Nubian 'and-maiden strained 'er and trying to get 'er black off in the sink". But he can barely tear his eyes away from the ripe, luscious subtexts bulging through the flimsy fabric of comedy; and, typically, when it comes to the crunch he is all fingers and thumbs and the straps won't come undone.

The final scene is a dispiriting fumble: Sid James is dead and with him - this seems to be Johnson's reading - the spirit of honest vulgarity that moved the best of the films. As filming starts for the dispiriting soft-porn of *Carry on Emmanuelle*, the survivors gather in the stained, tatty wreck of Sid's caravan while, in the play's coarsest touch, his shade stands watching over them.

Underneath the make-up, it seems, the clowns are all crying. If that really is all Johnson has to say, he would have been better off keeping quiet. But until the end, while he leaves the message to take care of itself, this is a marvellously enjoyable, well-acted play, and one that speaks directly to the naughty schoolboy that lurks in all of us.

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Musica 98, the 16th "édition" of Strasbourg's annual festival of contemporary music, is in full swing until October 3. Again Jean-Dominique Marco has devised a rich and adventurous programme, including 22 premieres, and again the Strasbourgists are flocking to it in enthusiastic numbers.

In principle, *Musica* is much like Britain's Huddersfield Festival (which begins its 21st season on November 18). In practice it enjoys two colossal advantages: state funding on a scale that Huddersfield can only dream of, and its location in a big cosmopolitan city with some rather grand halls.

Last year's *Musica* was something of a Finnish orgy, centred upon a great spread of Magnus Lindberg's bracing music. This year it spotlights middle-aged French composers: Philippe Manoury, Pascal Dusapin, Philippe Hurel. But it made a special bow to 71-year-old Franco Donatoni, a Francophile contemporary of Berio and Nono, with the first staging of his "opéra-comique" *Alfred*, *Alfred* (co-sponsored by Nanterre and by the Nieuw Ensemble Amsterdam, who are to tour it far and wide).

It was probably unwise to bill *Alfred*, *Alfred* as an opera; it is lighter than that, more like an extended autobiographical sketch. On a visit to Australia in 1992, Donatoni prepared a grand spaghetti carbonara (20 kilos of spaghetti, two kilos of pancetta, two litres of cream) for his hosts - and shortly afterwards went into a diabetic coma, and was rushed to Melbourne's Alfred Hospital.

In seven scenes with six "intermèdes", *Alfred*, *Alfred* offers a wry sort of diary about his hungry convalescence there, with Donatoni playing himself as the mute, dazed patient. The show is fattened with a filmed prologue accompanied by an earlier Donatoni piece, *Refrain*, in which he recounts his story with quizzical charm.

The intermèdes are solos for nurses with Fellini-esque names (Teresa Fossa, la Formosa, Rosa Shock, Mariastella degli Spiri), including jokey quotes from 19th-century opera. Otherwise, the



Floored by 20 kilos of spaghetti Franco Donatoni (centre) as himself in hospital in 'Alfred, Alfred'

STRASBOURG MUSICA 98

Wry diary of a convalescent

David Murray enjoys an autobiographical 'opera' amid a feast of contemporary French music

Nieuw Ensemble delivered Donatoni's quirky instrumental inventions with verve, like André Wilms' staging; but *Alfred*, *Alfred* doesn't begin to be an "opera".

As for the specially featured French composers, *Musica 98* ensured that we heard them in substantial chunks. Manoury, whose ambitious, uneven *Fragments pour un portrait* - purely orchestral - was performed last month at Edinburgh, was represented here mostly by his more typical music for instruments-plus-electronics. That is uneven

too, I think: some very striking ideas, some lapses into over-familiar routine. And he never knows when to stop.

Doze moments, however - adapted for mezzo-soprano and large orchestra from his recently acclaimed opera, *608 parallèles* was crammed with intriguing music, often beautiful. Of his electrified pieces, *Jupiter* (solo flute embedded in rich and fanciful echoes derived from itself) sounded ravishing. *Neptune*, with two busy vibraphones, marimbas and gong, made excellent effects at rather indulgent length.

Pluton, with the pianist Pierre-Laurent Aimard, was gripping. But Manoury's long, erotic song-cycle *En écho*, sweetly sung by Donatienne Michel-Dansac, was positively over-egged with electronics, sumptuous to the point of sickness.

By contrast, Pascal Dusapin's recent music has gone stark and spare, almost neo-medieval. He wrings intense feeling from a tiny range of intervals, obsessively worked. The cellist Sonia Wieder-Atherton played his *Celo* with orchestra, and the solo *Immer*, with passionate sympathy. Two fine, sober choral works, *Umbras Morris* and *Gramm Synopsis* (after Meister Eckhart) were impeccably sung by the Accensus choir.

As for Philippe Hurel, I fear I'm quite deaf to whatever he means to be doing. If there is any musical clutter that takes us from one illogical event to the next, it escapes me completely. Never mind: even for discouraging experiences like that, *Musica* is always an education and a feast.

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David Murray

INTERNATIONAL Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Götterdämmerung: by Wagner. New staging by Pierre Audi, conducted by Hartmut Haenchen; Sep 30

BIRMINGHAM

CONCERT
Symphony Hall
Tel: 44-121-212 3333
City of Birmingham Symphony Orchestra: conducted by Sakari Oramo in works by Schubert, Mozart and Strauss; Sep 30

OPERA

Symphony Hall
Tel: 44-121-212 3333
Das Rheingold: by Wagner. Semi-staged Royal Opera production conducted by Bernard Haitink. Cast includes John Tomlinson; Oct 5

CHICAGO

CONCERTS

Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: conducted by Daniel Barenboim in works by Wagner, Shchedrin and Brahms. With violin soloist Maxim Vengerov; Oct 1, 2, 3

OPERA

Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
La Gioconda: by Ponchielli. Conducted by Bruno Bartoletti in a staging by John Copley. The title role is sung by Jane Eaglen; Oct 1, 4

EDINBURGH

EXHIBITION
Scottish National Portrait Gallery
Tel: 44-131-624 6200
The Winter Queen: The Life of Elizabeth of Bohemia. Includes around 50 paintings, plus a selection of engravings and medals; to Oct 4

FRANKFURT

CONCERT
Alte Oper
Tel: 49-69-134 0400
Radio Symphony Orchestra Frankfurt: conducted by Huh Wolff in Beethoven's Missa solemn; Sep 30

GLASGOW

OPERA
Theatre Royal
Tel: 44-141-332 9000
The Magic Flute: by Mozart.

Scottish Opera production by Martin Duncan, conducted by Richard Farnes; Oct 1, 3

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: Richard Hickox conducts a series of works by Bruch; Oct 1, 3

OPERA

English National Opera, London Coliseum
Tel: 44-171-632 8300
Otello: by Verdi. New production by David Freeman, designed by Tom Phillips and conducted by Paul Daniel/Mark Shanahan. David Rendall sings the title role; Sep 30; Oct 3

Royal Albert Hall
Tel: 44-171-5898212

● Siegfried: by Wagner. Semi-staged Royal Opera production conducted by Bernard Haitink. Cast includes John Tomlinson, Stig Andersen, Graham Clark and Anne Evans; Oct 1
● Götterdämmerung: by Wagner. Semi-staged Royal Opera production conducted by Bernard Haitink. Cast includes Stig Andersen and Anne Evans; Oct 3

MANCHESTER

CONCERTS
Bridgewater Hall
Tel: 44-161-907 9000
● Halle Orchestra: conducted by Owain Arwel Hughes in works by

Vaughan Williams, Holst and Elgar; Oct 1

● Royal Liverpool Philharmonic Orchestra: conducted by Marco Zambelli in a Russian programme including works by Borodin, Tchaikovsky and Mussorgsky. With piano soloist Paul Lewis; Oct 2
● Saint Louis Symphony Orchestra: conducted by Hans Vonk in works by Barber, Schumann and Beethoven. With cello soloist Lynn Harrell; Oct 3

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Munich Philharmonic Orchestra: conducted by Simone Young in works by Janáček, Martinu and Dvořák; Sep 30
● Munich Philharmonic Orchestra: conducted by Simone Young in works by Janáček, Martinu and Dvořák; Oct 1

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
New York Philharmonic: Kurt Masur conducts Beethoven - The Complete Symphonic Cycle. Programme V: Oct 1, 2, 3

EXHIBITIONS

Museum of Modern Art
Tel: 1-212-708 9480
www.moma.org
Bonnard (1867-1947): originated at London's Tate Gallery, this

major retrospective focuses on around 100 works produced between the 1890s and 1940s. Includes landscapes, still lifes, a series of nudes, and several self-portraits; to Oct 1

Pierpont Morgan Library
Tel: 1-212-685 0008
Master Drawings from The State Hermitage Museum, St. Petersburg, and The Pushkin State Museum of Fine Arts, Moscow. 120 European drawings dating from the 15th to the 20th centuries, some of which have never before been exhibited outside Russia. Includes works by Rembrandt, Dürer, Matisse and Picasso; to Jan 8

OPERA

Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
● Aida: by Verdi. Plácido Domingo conducts a production by Sonia Frisell, with a cast starring Maria Guleghina and Vladimir Bogachov; Oct 3
● Lohengrin: by Wagner. Designed and directed by Robert Wilson, with costumes by Frida Parmeggiani. James Levine conducts and the cast includes Deborah Polaski and Ben Heppner; Sep 30; Oct 3
● Samson et Dalila: by Saint-Saëns. New staging by Elijah Moshinsky, with sets and costumes by Richard Hudson; Oct 1, 5

PARIS

CONCERT

Théâtre des Champs Elysées
Tel: 33-1-4952 5050
Orchestre National de France: conducted by Christoff Perick in works by Strauss and Mahler; Oct 1

EXHIBITION

Musée d'Orsay
Tel: 33-1-4049 4814
www.Musee-Orsay.fr
Stéphane Mallarmé (1842-1898): retrospective exploring the work of the French Symbolist poet, and his influential relationships with his literary and artistic contemporaries; to Jan 3

OPERA

Théâtre des Champs Elysées
Tel: 33-1-4952 5050
Eugene Onegin: by Tchaikovsky. European Union Opera conducted by Vladimir Jurowski in a staging by Nikolaus Lehnhoff; Oct 5

STOCKHOLM

EXHIBITION
Moderna Museet
Tel: 46-8-5195 5200
www.modernamuseet.se
International Surrealism: works from the collection by artists including Dalí, Duchamp, Magritte, Ernst and Giacometti; to Oct 5

TOKYO

EXHIBITION
Metropolitan Art Museum
Tel: 813-3823 6921
The Carmen Thyssen-Bornemisza Collection: touring show of 94 paintings, ranging from the 18th

century to the early 20th; to Oct 4

ZURICH

EXHIBITION
Kunsthaus Zurich
Tel: 41-1-251 6765
Max Beckmann and Paris: more than 100 masterpieces of modern art from public and private collections around the world. Works by Beckmann are shown alongside paintings by Matisse, Picasso, Braque, Léger and Rouault; to Jan 3

TV AND RADIO

● WORLD SERVICE
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHz (463m)

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● CNN International
Monday to Friday, GMT:

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13.30: *Business Asia*
18.30: *World Business Today*
22.00: *World Business Today Update*

● Business/Market Reports:
05.07; 06.07; 07.07; 08.20; 09.20; 10.20; 11.20; 11.32; 12.20; 13.20; 14.20.

At 08.20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

COMMENT & ANALYSIS

FINANCIAL TIMES

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Wednesday September 30 1998

The Fed rides in to the rescue

If the US economy were insulated from the financial turmoil in the rest of the world, the case for cutting official interest rates yesterday would have been weak.

The domestic economy, backed by a rise in consumer credit and mortgage lending, is still expanding briskly, even if the prospects are now for slower growth next year. The money supply has been expanding. Inflation, it is true, remains subdued. But despite a strong dollar and the collapse of world commodity prices, US finished goods prices are on a rising trend. If that were the whole story, the Federal Reserve's open market committee would have left its interest rate unchanged at 5.5 per cent, instead of cutting it by a quarter point.

Nor does the 16 per cent fall in US equity prices since the July peak appear, by itself, a reason for official concern. Stocks are still very highly valued in historic terms, and it is not the job of central banks to protect speculative gains. The Dow Jones Industrial Average is only back to its level at the end of January and still 38 per cent higher than it was two years ago.

But that figure also helps to define the risk which the Fed is now facing. A collapse of equity prices by 40 per cent - added to the general anxieties in international capital markets - could conceivably cause a serious deflationary spiral.

The risk of a 1930s style calamity is slight, especially if yesterday's move signals a readiness by the Fed and other central banks to take pre-emptive action. But the near collapse of the US hedge fund, Long-Term Capital Management, last week clearly convinced the Fed that it cannot be ignored.

Should Europe follow suit? Despite much talk of co-ordinated action, especially in Britain, France and now in Germany, the likelihood of a prompt move by the German Bundesbank is slight. Its official rate of 3.3 per cent is probably lower than it would have been absent the Asian crisis, and it will be unwilling to make the convergence of European interest rates ahead of monetary union any more difficult. As things are, the fall in Italian and Spanish rates to German levels will effectively cut European rates by about 1/2 percentage point by January.

A small cut in German rates is unlikely to do much for growth or financial stability. The task of containing the world financial crisis must rest largely with the Fed, helped by further monetary expansion in Japan. Further easing in the US, if required, would help to bail out many imprudent investors. That is regrettable, and a problem which must be addressed in future. But as Alan Greenspan, the Fed chairman, said recently, the present crisis requires ad hoc remedies. These, unfortunately, are what the Fed is now being forced to apply.

Chinese whispers

Chinese companies were yesterday given just two days to repatriate billions of dollars worth of foreign currencies which they have been stashing abroad illegally. This was the latest, and most dramatic, in a series of recent statements and policy changes which appear to hint that China's no-devaluation policy is weakening.

Capital flight from China has been prompted by growing worries about renminbi devaluation, and has been achieved by circumventing China's regime of capital controls by such devices as forging trade documents.

Whether or not the order to repatriate funds will make much difference is arguable. What was more significant about yesterday's move was that it appeared to confirm a softening in Beijing's exchange rate stance. Previously, officials had insisted that the renminbi rate would be maintained. Yesterday, the line was that no currency could be promised to be safe.

Market pressures played only a limited part in this apparent shift in policy. Although there has been substantial capital flight, China's capital controls still make speculation against the renminbi all but impossible. More relevant are worries about how the emerging markets crisis is affecting China's economy. Exports fell by 2.4 per cent year-on-year in August, and most

economists now believe that the official output growth target of 8 per cent cannot be met.

But the potential cost of a devaluation still far outweighs the doubtful benefits.

The most compelling argument for China to hold firm is that a renminbi devaluation could set off another round of emerging-market crises. Apart from weakening the world economy, this would quickly reverse China's competitiveness gains. It would also destroy the stock of political goodwill China has garnered from its strong stance.

More surprisingly, a devaluation may not be justified on domestic economic grounds. Certainly, it would improve China's export potential. But even now, China is still very competitive with a trade surplus of \$18bn in the first eight months of this year alone. A devaluation would make imports more expensive, important in a country where 50 per cent of exports are made from processing imported goods. And the effect on the financial system could be severe.

More important for China is to find a way of boosting domestic demand and escaping deflation. A major infrastructure spending programme is being launched; if this does not do the trick, Beijing will need to show the flexibility to come up with other policy responses. Devaluation, though, should not be one of them.

The world faces two tasks in dealing with the strains on the global economy. The first is to get the mix of macro-economic policies in the biggest economies right. Hence yesterday's interest rate cut in the US (see editorial). The second is to get the institutional framework right, which means, in particular, examining the two most important bodies dealing with emerging markets and international financial flows: the International Monetary Fund and the World Bank.

Dubbed the Bretton Woods twins after the New Hampshire resort where they were founded in 1944, the IMF and World Bank have spent the past half-century developing a relationship of enduring affection and frequent irritation that will be familiar to siblings everywhere.

Created with very different objectives, the Bank and Fund had little operational contact for the first 30 years of their existence. But changes in the world economy have brought their activities much closer, increasing the scope for friction. The financial crises in Asia and Russia are only the latest such changes prompting fresh calls for a re-examination of their roles. These will be high on the agenda at the institutions' annual meetings in Washington next week.

Indeed as the global financial crisis has widened and deepened there have been calls in some quarters for a "new Bretton Woods" to rebuild the international monetary system. This would probably encompass other bodies, including the Organisation for Economic Co-operation and Development in Paris (grouping the world's 29 biggest industrialised countries) and the Bank for International Settlements, the central bankers' central bank. Some have even argued that a world financial authority should be set up.

There are certainly big questions to be answered. Can the world afford a properly financed lender of last resort? How best can the strength of domestic financial systems be assured internationally? How can the private sector be made to play its part in crisis resolution? Should there be new restrictions on international capital movements?

Wise heads are wary of raising expectations before such questions have been answered in policymakers' own minds. After all, as John Maynard Keynes said of the original Bretton Woods conference: "It is as though one had to accomplish all the preliminary work of many interdepartmental and cabinet committees... all carried on in committees and commissions numbering anything up to 200 people in rooms with bad acoustics, shouting through microphones, with many of those present having an imperfect knowledge of English, each wanting to get something on the record which would look well in the press down at home."

Despite that bureaucratic nightmare, Bretton Woods did eventually produce the Bank and Fund. Criticised from the right for bureaucratic wastefulness and from the left for the unthinking application of economic orthodoxy, the two institutions nevertheless remain at the heart of the world financial system, under the respective leaderships of James Wolfensohn and Michel Camdessus.

But the Asian crisis - in which the Fund has been powerless to halt financial collapse and in a structural policies praised by the Bank have been thoroughly discredited - leaves both institutions vulnerable. And their response to criticism has been complacent. To understand why, it is necessary to look at the way they have responded to previous crises of the way they interacted, and consider whether things may be different now.

A gruesome twosome

Ahead of next week's IMF/World Bank meeting, Robert Chote looks at reform of the much-criticised institutions



short-term liquidity support that falls outside its traditional mandate. The calls come from the IMF and leading industrial countries, notably the US.

In an attempt to reduce their demands, the Bank has warned that it might need to make a politically contentious capital increase of its own if it is forced to continue such lending. Having expensively repositioned itself as a long-term development institution, the Bank will not want to get embroiled in short-term crisis management. In practice, though, it will be targeted for this as long as it is seen to have spare cash.

At the operational level, meanwhile, the Asian crisis has brought an old problem into sharper focus.

The convergence of the Bank and Fund's activities over the past 25 years has reflected the growing recognition that restoring growth requires macroeconomic stabilisation and structural reform in tandem. The Fund has always prided itself on being quick to set up stabilisation programmes. Now, it is arguing that in view of the contribution structural problems have made to the Asian crisis, structural solutions (which are the Bank's speciality) ought to be applied with equal speed.

But while the Fund's hierarchical structure and authoritarian culture lend themselves to rapid decisions, the Bank's byzantine bureaucracy and fondness for thoughtful reflection do not. This was damagingly apparent in financial sector reform, when the Bank was often slow to respond and the Fund in turn acted too hastily. (The institutions have since set up a liaison committee.)

But something more radical may be needed. Tony Blair, the UK prime minister, recently proposed the idea of creating a joint department spanning both institutions. The idea has come to nothing, but transferring the Bank's special financial operations unit to the Fund might well be desirable. Greater clarity is also required in assessing the social impact of stabilisation, which in turn affects its ultimate durability.

This is where the concordat Mark II should come in. It states that it is important "to clarify, and where possible, sharpen the division of primary responsibilities between the two institutions".

But in all the areas on which it focuses - such as surveillance of national policies, crisis management, strengthening financial systems, and lending to low income countries - the document shies away from any painful reallocation of responsibility. The institutions promise little more than to talk to each other more, while the Fund explicitly retains the right to barge in and impose its own structural reforms whenever it thinks the Bank is dithering in a crisis.

The tone of the new concordat is reminiscent of the various reports on Bank and Fund co-operation prepared for the boards of the institutions in the early 1980s. As Mr Polak points out, they invariably concluded that differences of view were being resolved successfully. "In broad terms and in elegant prose the message delivered was that co-operation was essential, that it was working better and better, and that there was a need for further improvement."

With the institutions under greater scrutiny today than ever before, the shareholders - notably the largest industrial countries - may now be looking for something rather more substantial than is being offered so far.

ritory of the other.

The conflict came to a head in 1988 when the Bank announced a \$1.25bn loan to Argentina at a time when the Fund was withholding financial support. After an embarrassing public row and instructions from the US and others to get their act together, the Bank and Fund hammered out a peace treaty known as the "concordat".

This split the functions as follows:

The Fund does not have the resources to rescue countries from crises involving huge capital outflows

lows: the Fund got primary responsibility "with respect to surveillance, exchange rate matters, balance of payments, growth-oriented stabilisation policies and instruments". The Bank had primary responsibility for "the composition and appropriateness of development programs and priorities".

Both bodies were both allowed "to explore their legitimate concerns" in macroeconomic and structural issues, but urged to "rely as much as possible on

analyses and monitoring of the other institution in the areas of primary responsibility of the latter".

Writing in the Bank's official history, Jacques Polak, a former IMF research chief, argues that the concordat returned the relationship between the institutions "to the untidy, but controlled, mixture of co-operation in general and mutual irritation on occasion that characterised the situation in the mid-1980s".

The trouble is that the Asian crisis has begun to wrench this messy but workable compromise apart again. By generating fresh criticism of both bodies, it has prompted calls for a partial merger, the creation of joint departments and even the abolition of one or other institution. In response the Fund and Bank have produced a revised concordat which will be presented to finance and development ministers next week.

One problem thrown up by events in Asia is that the Fund does not have the resources to rescue countries from crises involving huge capital outflows. It has been seeking an increase in its capital, but the US, the Fund's largest shareholder, is still struggling to have its share approved by Congress.

As a stop-gap measure, the Bank has found itself called upon to lend \$6.6bn to help pay for

OBSERVER

Blair's Blackpool

There is much to be said for the air of studied sobriety permeating the UK Labour party's annual conference in Blackpool. With tougher times ahead, Tony Blair, the prime minister, has wisely concluded that substance now counts for more than style. The conference has been more mature for being less flashy. The occasional platform tantrums of some trade union leaders have stirred barely a ripple.

The prime minister's speech amplified the central message of the week. New Labour's embrace of prudent economics and market solutions is irreversible. The pursuit of social justice can no longer be seen as inimical to an enterprise economy. Ideals are fine, ideology is out. So, thankfully, is the glib rhetoric about a young country and an age of achievement which previously punctuated Mr Blair's oratory.

The skill of this latest speech lay in the apparent ease with which it threw a bridge between the pragmatic politics of government and Labour's constant hankering for the moral high ground. In his words, the party had lost the battle of ideas in the 1980s but it was now winning the battle of values. This is a brand of inclusive politics which leaves William Hague's Conservatives struggling to seem relevant.

But if the party faithful were ready to embrace the politics of realism for an afternoon, Mr

Blair's purpose was also to anticipate future unrest. The price of the government's injection of new funds into health, education and law and order, he warned, would be a much more rigorous approach to standards in those services. Public sector unions can no longer be the guarantors of mediocrity. And a start will be made on welfare reform by tightening eligibility for all new benefit claimants, including lone parents and the disabled. This amid the chill winds of an economic downturn.

Yet for all Mr Blair's efforts to educate his party, he said little of substance on two issues which will dominate the political scene during the next year.

Within a matter of weeks the government must respond to the impending report of the Jenkins Commission on electoral reform for the House of Commons. It will be one of the most important decisions of the present parliament. But Mr Blair remains unsettlingly opaque.

Similarly with Europe. Despite its pro-European tone, the government has yet to take a lead in preparing for sterling's eventual entry into the single currency. Business is asked to invest against the possibility, while the government sits firmly on the sidelines. Mr Blair yesterday spoke of the coming challenges for the nation. These are challenges for his government.

Blade runner wields the axe

It has been a rollercoaster year for Al Zeien. In June the Gillette boss put on a shaving show at New York Stock Exchange when the new \$720m razor company took its public debut. The week with profits and the share price suffering, he took a sharp blade to the company, slicing 4,700 workers and 14 factories.

But the 69-year-old Zeien - who has had three contract extensions since he passed the official retirement age of 65 - is showing no sign of going early and self-appointed Michael Hawley, president since 1995, looks like being kept waiting a while longer.

When Zeien took the helm of Gillette in 1991, he was already old by the standards of the traditionally macho razor group. Yet there are still no signs that he is losing his job. Insiders say he is full of energy, despite his age, and is invigorated by challenging times.

He might find the next few months particularly exciting. Troubles in emerging markets, some of Gillette's main markets, are bound to present him with plenty of close shaves.

He even took time out on Monday to reorganise the company and shuffle top management, giving a big leg up to Edward DeGaan, one of the five finalists in the Duracell

business. Maybe Hawley's position as crown prince is looking less secure.

Paired off

German politicians are seeking safety in numbers as they adjust to life out of the giant shadow of Helmut Kohl.

Chancellor-elect Gerhard Schröder and Social Democratic Party leader Oskar Lafontaine have been inseparable since Sunday's election triumph. And wherever there is a camera, Wolfgang Schäuble, the number one seed to follow Kohl as leader of the Christian Democratic Union, and Volker Rühe, the outgoing CDU defence minister, are pictured side by side.

The Schäuble-Rühe double act is meant to reassure the faithful that the CDU will not fall prey to intestine strife after its leader of 25 years quits in November. The two men, both 56, are the only CDU heavyweights in Bonn to emerge from the Kohl years with their status enhanced. But their buddies may also be convinced to cap the ambitions of the CDU's bright 40-somethings in the regions, who are demanding a "generational" change in the party.

Christian Wulff of Lower Saxony, Peter Müller in the Saar and Roland Koch in Hesse have all laid claim to more power in the CDU. This would be fine if they had been able to win elections, but all three are

opposition leaders. In any case, choosing youth for youth's sake does not necessarily pay dividends. Ask the British Conservative party.

Restad in peace

Can Gudmund Restad keep quiet until Monday? That's when the Norwegian finance minister is due to present his budget to parliament. The only trouble is, every spit and cough was published yesterday in the newspaper Dagsbladet.

Of course, there's now a gag on civil servants talking about the budget, but it's pretty hard on a politician to keep stum when the opposition is laying into his plans. At the moment, all Restad will say is that the police are investigating the leak. Looks like his critics have five days to make hay.

Boos boost

Mild-mannered Russian MP Georgy Boos seems an odd choice to head the country's tax service. Few Duma colleagues can imagine him stomping around persuading some of Russia's business types, for whom tax-dodging has evolved into a national sport, to render unto Moscow what is Moscow's. Boos was yesterday keeping a low profile, saying he would have to understand all Russia's tax problems before he made any announcements. That could keep

him silent for months.

But Boos has shown a deft political touch. As President Boris Yeltsin tried to get Victor Chernomyrdin approved as prime minister, Boos - a member of Chernomyrdin's Our Home is Russia party - did not vote for his leader.

Rumour has it Boos has thrown in his lot with Yuri Luzhkov, Moscow's populist mayor and leading presidential candidate. Sorting out tax collection is, after all, a task for the longer term.

Primary culture

Time was when the US presidential primaries - like White House sex scandals - just went on and on. Starting in New Hampshire in March, the caravan trudged along at a leisurely pace until June.

The trouble with this arrangement was that states at the end of the queue sometimes didn't vote until after the whole thing was settled. Californians were particularly disgruntled when Uncle Sam's most populous state trailed over the finishing line in June.

Financial Times

100 years ago

Blind Pools in High Holborn
Business people are settling down in real earnest for the period of bustle that succeeds the holiday season, and we find that the preparations for a renewal of speculative activity are not confined to the City, but are also manifesting themselves just outside its borders, where a certain class of "stock and share dealers" find it more convenient to conduct their affairs than in the neighbourhood of the Bank. In November last the City Solicitor ran to earth a group of the most unscrupulous swindlers that ever traded on the folly of mankind and the enterprising gentlemen were severely punished for their pains.

50 years ago

Australia's Rabbit Pest
Melbourne, Sept. 28. A warning of the serious effects to Australia's pastoral industries through the depredations of rabbits has been given by Sir Clive Baillieu as the most disturbing impression gained since his return to this country. He pointed out that by wolfing the most succulent grass which should be going into wool and meat, the rabbit was nibbling at the national income and Australia's standard of living.

THE LEX COLUMN

Fed but not full

The markets wanted action and they got it. But investors should not kid themselves that a mere ¼ per cent reduction in US interest rates will solve the global financial crisis.

Granted, it will help a bit. The mere fact that the Federal Reserve is doing something to prevent further contagion should boost investors' confidence. Lower rates will make dollar-denominated assets less attractive, perhaps helping slow down global capital's flight to safety. And by lowering banks' cost of funds, the Fed is hoping to prevent a credit crunch spreading to the core of the US financial system — the dangers of which were so aptly illustrated by the collapse of Long-Term Capital Management.

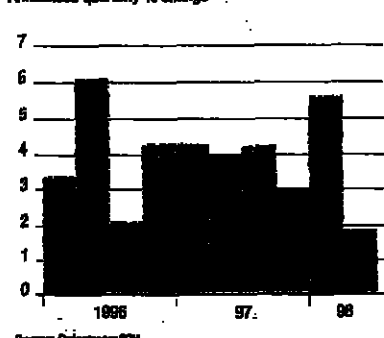
But a US rate cut will not clear up Japan's banking problem or crack Brazil's fiscal deficit. Nor will it do much to reduce risk premia and punitive interest rates across emerging markets. Unless followed by other initiatives, such as a financing package for Latin America, the boost of confidence engendered by yesterday's move could dissipate. Meanwhile, it risks storing up trouble domestically. With third-quarter gross domestic product expected to increase by a still-healthy 2½ per cent, tight labour markets and rapid monetary growth, lower rates now could trigger inflation.

For bonds the cut is positive, though further cuts would be needed for yields to go much lower. Equities, however, still face an unappealing mix of higher risk and lower profit growth.

China

China still claims to be operating an "open door" policy, but the hinges are squeaking. The abruptness of the deadline for foreign currency repatriation suggests some desperation in the government's attempt to stem capital flight. A first-half trade surplus of more than \$200m and a similar amount of foreign investment failed to bolster the country's foreign exchange reserves. Since July, the worsening Asian crisis and a speculative attack on the Hong Kong dollar have probably accelerated the outflow. This may not be as harsh as Malaysia's imposition of capital controls, but China is a bigger economy. Investors in emerging markets everywhere are likely to shiver.

US real GDP growth
Annualized quarterly % change



While Beijing could claim it is simply enforcing existing rules, the threat of punishment and new restrictions on foreign currency transactions smack of moving the goalposts. It not only makes doing business in China more tricky than ever, but also raises the fear that it will become increasingly difficult to take earnings out. Some foreign companies have already found they need permission to repatriate more than \$10,000.

In the short run, Beijing's action may seem like a clever way of protecting the currency while also pumping up the economy through lower interest rates. The worry is that this will be hard to sustain in the longer run. And if foreigners are reluctant to provide new funds and locals find a way of evading the new rules, the capital flight may resume.

UK IPOs

Investors in UK IPOs have had a sorry year. Of seven new London listings (excluding demergers) worth over £200m this year, five are now trading below their issue price. But, more depressingly, as a group, they have underperformed the market by an unweighted average of nearly 15 per cent.

This should not be that surprising. After all, many were quite simply overpriced during the last months of the bull market. Coca-Cola Beverages, whose shares fell 13 per cent yesterday on a bleak profits outlook, Computacenter and Thomson Travel are cases in point. In market turmoil investors are more

likely to sell "unseasoned" stock than tried and trusted blue chips. Relatively untested managements, especially in industries yet to suffer a recession, require investors to take much on trust. That the froth has been blown off clothing retailers New Look and Monsoon reflects investors' reaction against this need for trust, which the sector's woes amplify.

That said, the strong outperformance of microchip designer Arm Holdings and ITNet, a services company, shows that real growth stories will not go begging for capital for long, whatever the weather. With the odds of bagging shares in the "next Microsoft" thin already, splashing out on IPOs towards the end of a bull market is hardly the best way to start.

Russia

Filling Moscow's political vacuum is a thankless task. Yevgeny Primakov's failure to form a settled government is threatening his own position and that of Boris Yeltsin. Following the decision of Alexander Shokhin to quit as deputy prime minister last week, Boris Fyodorov, the once-great hope for Russian tax reform, has now been sacked. They seemed ineffective enough. But without them, the prospects for Russia putting its finances in order look as bleak as at any time since the latest crisis began.

Against all International Monetary Fund advice, money-printing has started and inflation is rampant. And as a consequence of the country's frozen payment system, government revenues are tumbling faster than ever, making a formal default on foreign debt likely. In all the confusion, it can be no surprise economic policy is so contradictory. In rapid succession, the government has indicated it will pursue greater state control of the economy, macro-economic reform along IMF lines, and now a synthesis of the two involving financing the government's deficit through a "controlled emission" of money.

Few politicians wish to be associated with the pain hyperinflation is likely to inflict in the coming months. But until there is a political consensus behind sensible reform, there is no point in the IMF's associating itself with it either. The little cash it has left, it should lend to more bankable propositions.

Battered Anwar faces court to deny corruption charges

Sacked Malaysian deputy PM claims he was beaten by police

By Sheila Matkaly in Kuala Lumpur

Anwar Ibrahim, the sacked deputy prime minister of Malaysia, appeared in court yesterday, bruised and with a black eye, to plead not guilty to nine counts of corruption and illegal sexual acts.

It was Mr Anwar's first public appearance since he was detained on September 20 under the country's strict Internal Security Act, which permits detention without trial.

Mr Anwar's left eye was swollen, and he had faint bruises on his arm and neck. One of his seven lawyers said police had beaten the former deputy premier while he was handcuffed and blindfolded, until his nose bled and he passed out.

"It was a clear message to behave," the lawyer said.

Police with rifles surrounded the courthouse and sealed off surrounding streets to keep away the tens of thousands of Malaysians protesting against Mr Anwar's detention. More than 100 supporters have been arrested by police armed with tear gas and water cannons in protests

which followed Mr Anwar's arrest. Mr Anwar's lawyers said he had pleaded for a doctor because he could not see with his left eye, walk normally or use one of his arms, but it was not until the fifth day of his detention that a police doctor saw him. He lodged a police report and prosecutors said an investigation was under way.

Inside the courtroom, Mr Anwar motioned to reporters that he had been punched in the head and fed little. He answered questions by reporters before police intervened.

Mr Anwar said he was being confined alone without light, but he pledged to endure this treatment "as long as it takes for reform" (reform). "I'm more convinced of the need to change or reform this country." To those who have rallied behind him, Mr Anwar said: "Keep up the fight."

His wife, Wan Azizah Wan Ismail, who took up his call for reform until the authorities restricted her from holding rallies, proudly showed Mr Anwar international magazines featuring them both.

Judge Hassanah Mohamad Hashim granted a request by Mr Anwar's lawyers that he should be examined by a doctor chosen by the family. But she transferred the case to the High Court and left it up to the higher authority to decide when to hold the next hearing and whether to grant bail. Lawyers said it was unlikely Mr Anwar would be released on bail.

Mahathir Mohamad, the prime minister, sacked Mr Anwar on September 2 for having "low morals". As Mr Anwar was in court yesterday, Dr Mahathir was explaining his actions to parliament: "Anwar's wish was for me to stay down so that he would get away without being tried," he said.

But Lim Kit Siang, parliamentary opposition leader, said in an interview: "If a former deputy prime minister can be assaulted in this fashion in police custody, Malaysians must wonder if they can be safe."

Mr Anwar says the allegations are part of a high-level conspiracy to punish him for becoming a threat to Dr Mahathir's 17-year rule.

Derivatives soar as companies seek means of controlling risks

By Christopher Adams and Richard Adams

Global financial markets have witnessed explosive growth in the use of financial derivatives during the last three years, according to the triennial survey of foreign exchange activity conducted for the Bank for International Settlements (BIS).

The daily volume of trade in over-the-counter and currency and interest rate derivatives in London, the world's leading foreign exchange trading centre, has more than doubled from \$74bn to \$171bn.

London consolidated its position over the last three years, with average daily trading volumes outstripping those of New York and Tokyo combined, and turnover rising from a daily \$464bn to \$687bn — an increase of 37 per cent over the three years. The BIS estimated daily global trading averaged \$1,260bn in April 1995.

However, London experienced a

slower rate of growth than in the previous two surveys conducted by the Bank of England, which also surveyed financial institutions in April. This was countered by the growth in derivatives.

This growth reflected the popularity of derivatives among companies looking for more sophisticated, individually tailored methods of controlling risk, said John Footman, deputy director of the Bank's financial stability section.

The daily value of exchange-traded interest rate derivatives increased from \$177.2bn to \$245.3bn in the same period, said the London International Financial Futures and Options Exchange (Liffe).

The only leading financial centre that bettered London in growth was New York, where foreign exchange volumes rose 43 per cent. Tokyo suffered a slide of 8 per cent. Credit lines to Japanese banks have been reduced because of declining confidence in the financial sector.

Paul Chertkow, global foreign exchange strategist for the Bank of Tokyo-Mitsubishi, said some Japanese banks had suffered from downgraded credit ratings, making them less attractive to counterparties wanting A or AA credit ratings.

Trading against the dollar in the currencies that are to participate in Europe's monetary union increased as a proportion of total volume from about 38 to 43 per cent. Cross-trading between the same European currencies declined.

For the first time, the Bank of England's survey included details on trading in emerging market currencies, where daily turnover was \$12.5bn.

The Bank of England said overall turnover was growing at a sustainable pace. "London continues to be a place where people want to do business," said Clifford Smout, head of foreign exchange.

Challenge of Euro, Page 4

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Yury Luzhkov, mayor of Moscow, visiting the seaside resort of Blackpool, northern England, yesterday for the ruling British Labour party's annual conference. Conference report, Page 10

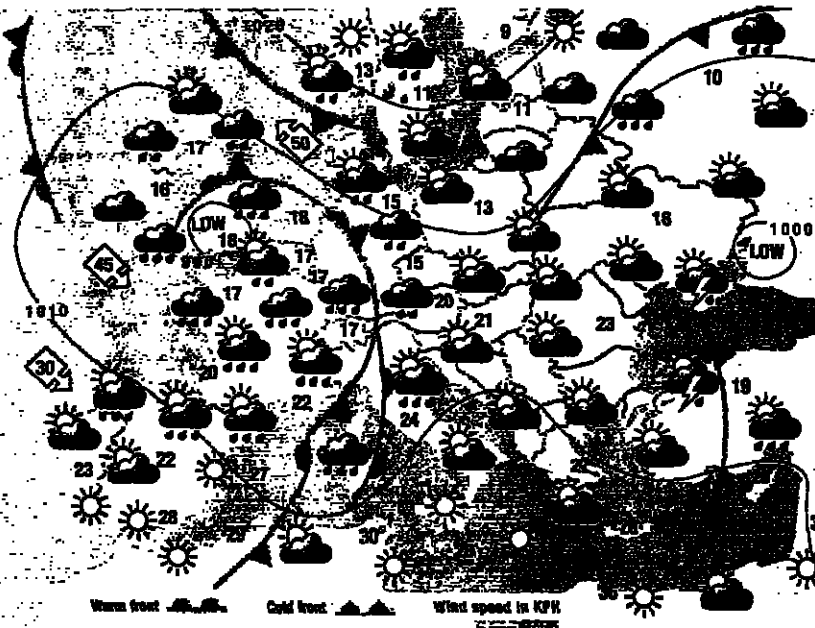
FT WEATHER GUIDE

Europe today

After a cold start, much of Scandinavia will be dry with sunshine. There will be isolated showers in the south. Western Russia will have heavy rain. North-west Europe will be unsettled. Northern France, the Low Countries and Germany will have prolonged spells of rain. Much of the Mediterranean will be sunny, but showers in southern France, the Alps and the Pyrenees will spread into Italy.

Five-day forecast

High pressure over Scandinavia will gradually push south-west across north-west Europe where it will turn much cooler by the weekend. A large area of low pressure will bring showers to much of central Europe. The western and eastern Mediterranean will remain dry, but Italy, the Balkans and Greece will have heavy rain.



TODAY'S TEMPERATURES

Location	Temp	Location	Temp
Madrid	10	London	12
Paris	11	Amsterdam	10
Berlin	12	Stockholm	8
Rome	15	Helsinki	5
Warsaw	10	Moscow	15
Beijing	18	Tokyo	22
Sydney	25	Auckland	18
Wellington	15	Christchurch	12
Dunedin	10	Port of Spain	28
Kingman Reef	25	London	12

Situation at midday. Temperatures maximum for day. Forecast by FT WEATHERCENTRE

Location	Temp	Location	Temp
Madrid	15	London	15
Paris	16	Amsterdam	14
Berlin	17	Stockholm	11
Rome	20	Helsinki	9
Warsaw	14	Moscow	18
Beijing	22	Tokyo	25
Sydney	28	Auckland	21
Wellington	18	Christchurch	15
Dunedin	12	Port of Spain	30
Kingman Reef	28	London	15

Gearing up for Success

Europe's role in the globalised economy

Tuesday 13 October 1998

Locarno Rooms, Foreign and Commonwealth Office, London SW1

Europe stands poised between the new opportunities opened up by the single market and the euro, and the risks posed by the emerging market crisis and the slowdown of the world economy. This half-day conference analyses from a business perspective the present economic and political state of Europe, and explores ways of achieving higher competitiveness and improved economic performance without lowering social cohesion.

Speakers include

- Antoine Bernheim, Chairman, Assicurazioni Generali SpA
- Dr Heinrich Bredt, Chief Executive, Philipp Holzmann AG
- Prof Clemens Biring, Chief Financial Officer, RWE AG
- Dr Klaus Friedrich, Chief Economist, Dresdner Bank AG
- William Garrett, Chief Executive, Robert Fleming Holdings Ltd
- Françoise Gaspard, Chairman and Chief Executive, Legrand SA
- Patricia Hewitt MP, Economic Secretary, HM Treasury
- Prof Reinhold Jochimsen, President, State Central Bank of North Rhine-Westphalia
- Robert Koehler, Chief Executive, SGL Carbon AG
- Ruth Lee, Head of Policy Unit, Institute of Directors
- Judith Mayhew, Chairman of Policy and Resources Committee, Corporation of London
- Dr Dennis Stevenson, Chairman, Pearson plc
- Prof Robert B Zoellick, President and Chief Executive Designate, Center for Strategic and International Studies

FLEMINGS



Herbert Quandt Stiftung
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For information on places still available for the conference and the German-British Forum Awards Dinner on 13 October at Banqueting House, Whitehall, please contact Maxine Vlieland at Specialist Conferences Ltd, Fax: 44 171 221 5187

MES
PIPELINE CENTER
Anwar faces corruption charges

Corruption charges
Anwar faces corruption charges

soar as companies
s of controlling risk

up for Success
in the global market

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INSIDE

Speculation rages over PLDT
Manila's financial community has been gripped by speculation of a takeover for control of Philippine Long Distance Telecommunications, the country's dominant telecommunications provider. Brokers say there is a significant prospect that one of the Philippines' prime corporate assets could be taken over by an international company or slip back into the control of former cronies of the late president Ferdinand Marcos. Page 16

Bangkok rally boosts confidence
The Thai stock market's benchmark SET index closed down 0.18 at 255.35, having risen 14.5 per cent in the previous four sessions and giving some hope that the market had touched bottom. A dramatic fall in interest rates and a stable currency are lifting confidence, while deposit rates in single digits have encouraged local investors back into the stock market. Some foreigners have also been nibbling, but almost by default, Malaysia and Indonesia are off limits while Singapore and the Philippines are thought still to have far to fall. Page 36

Farmers suffer in Bangladesh floods
As the flood waters recede in Bangladesh, the extent of the damage to its economy is becoming apparent. Farmers have been worst hit, with much of the rice crop wiped out. Jute has also suffered, and there will be losses in garments exports. The Asian Development Bank says Bangladesh will need two to three years to rebuild its infrastructure. Page 28

Ecclestone's eurobond benchmark
The \$2bn eurobond issue to be raised by Bernie Ecclestone's Formula One company has prompted speculation that Mr Ecclestone is to invest in the breakaway European football super league, or buy a football club. One thing is certain. If the company raises \$2bn it will create a highly liquid benchmark issue. Page 26

Brazil 'crucial to commodity prices'
The key factor in the fortunes of world commodity prices is the economic future of Brazil, according to a report from GHI, the international commodities broker. Brazil is the biggest grower of coffee, but also exports substantial amounts of other commodities such as sugar, soybeans, cocoa, coarses grains, tin, aluminium, gold and tobacco. Page 25

IMF set to disappoint Latin America
Latin American countries seeking a financial rescue plan from this week's IMF and World Bank annual meetings are likely to be disappointed, say IMF officials. At best, the IMF will step in with a credit line for Brazil along with an IMF programme requiring austerity measures to cut the country's enormous deficit. Page 38

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Goldman appoints 160 directors

By Tracy Corrigan in New York

Goldman Sachs, the US investment bank, has appointed 160 new managing directors. They will be eligible for the firm's highly prized partnerships, to be handed out at the end of October. The move comes as the firm seeks to retain staff who may have been disappointed by its withdrawal on Monday of its initial public offering, because of market conditions. Goldman was due to abandon 180 years of partnership and turn itself into a publicly traded company by launching an IPO of 10-15 per cent of its

Bank moves to retain staff after pulling public offering

stock in late October or November. Initial estimates valued the firm at up to \$30bn but the halving of the stock prices of publicly traded rivals in the last two months has drastically cut that valuation. Goldman has 402 managing directors, of whom 189 are partners. The first non-partner managing directors, known as extended managing directors, were created in 1996, as part of a plan to "broaden and deepen the leadership of the firm as it became more global," an official said.

The firm is expected to appoint at least 40 new partners. New partners stand to be allocated more shares in any IPO as a result of their elevation. Goldman said it plans to revive the IPO plan when conditions improve. "This organization is emotionally and intellectually committed to the strategic goals outlined at the time of our decision [to become a public company]," Henry Paulson, co-chairman and chief executive officer of the firm, said on Monday.

The appointment of new managing directors will help ensure that "everyone will keep their eye on the ball," said one market participant. Competitors said yesterday the withdrawal of the IPO is embarrassing for the firm, and rivals will seek to capitalise on it. Goldman, a leading underwriter of IPOs, arranged one of the few recent successful offerings - for e-Bay, the internet company. "Competitors will take their shots. I'm sure some bankers will use this as part of their

pitch" to potential IPO clients, pointing out that Goldman "wouldn't even take themselves public," said one person at a rival firm. Goldman executives said they would not advise other financial institutions to launch IPOs in current market conditions but would continue to do deals in other sectors. The withdrawal of the IPO is further bad news for that market. "Goldman represents a large part of the IPO market as an underwriter. People will take it as a sign of an even more moribund market," said Steve Tuen, director of research at IPO Value Monitor.

Chairman forced out in Italian bank merger row

By Paul Bets in Milan

Luigi Fausti, chairman of Banca Commerciale Italiana (BCI), was yesterday forced to step down in a fierce boardroom showdown engineered by Mediobanca, the Milan investment bank that is trying to forge a merger between BCI and Banca di Roma. Mr Fausti, who backed a rival merger proposal with the new Istituto San Paolo di Torino-IMI banking group, was immediately replaced by Luigi Lucchini, a steel entrepreneur and a Mediobanca board member. Mr Lucchini, 79, is also chairman of Compart, the holding company that controls the Montedison agro-industrial group. He is expected to act as chairman until BCI appoints a permanent successor. Mr Fausti implied that his reluctance to merge with Banca di Roma had cost him his job. "It seems that there is one sole answer: out with

Fausti and the deal is done," he told the board. In an uncharacteristic speech reflecting the intrigue and venom of the saga, Mr Fausti said he had received threats that he would be "run over" if he opposed the Banca di Roma deal. "And there is more to tell, which I won't, because when I think of this twisted story I feel uncomfortable," he said. Mr Fausti confirmed he had received a letter from Luigi Arcuti, chairman of San Paolo-IMI, saying that Morgan Stanley Dean Witter, the US investment bank, had drafted an outline of a possible integration of the two groups. Yesterday's events drove BCI shares down 1.52, 2.4 per cent, to L10,301. This followed a rally in recent days on expectations that the bank would consider merging with Banca di Roma, BCI's largest banking group. A BCI board member said

after yesterday's heated meeting that all eventual merger or partnership options remained open. Although Mediobanca through its allies maintains a dominant influence on BCI, the bank also has other significant shareholders such as Deutsche Bank, which recently accumulated a 4.5 per cent stake, and Paribas, which has opposed a Banca di Roma merger. BCI last night reported a 274 per cent rise in first half net consolidated group profits to L613bn (\$610m) from L137bn in the first half of last year. Gross operating profits rose 70 per cent to L130bn and the bank's total consolidated assets amounted to L223,000bn. Although Mr Fausti's removal has revived the possibility of merger negotiations with Banca di Roma, BCI's board is now expected to come under pressure to consider the San Paolo-IMI alternative.



French Levi Strauss workers in La Bastille awaiting news after the company announced plant closures. Details, Page 19

Daiwa to scale back overseas operations

By Gillian Tett in Tokyo and George Graham in London

Daiwa Securities, Japan's second largest broker, is to cut at least 800 of its 1,800 overseas staff before April as part of scaling back its international operations. It will leave Nomura Securities as the only Japanese securities house seeking to maintain a global presence in non-Japanese-related international businesses. Daiwa's cuts show how Japanese brokers are retreating

from the international empires built in the 1980s. The global financial turmoil is putting pressure on the international securities industry. "This is really a terrible time for the brokers," said Robert Garone at Dresdner Kleinwort Benson. Japanese brokers have also been hurt at home by financial deregulation, which has liberalised commissions and allowed increased competition from non-Japanese firms. Daiwa will close 13 of its 80 overseas offices, including Zurich, Amsterdam, Bombay and

Bangkok, and withdraw from a host of overseas businesses, such as Latin American equity brokerage and US foreign exchange brokerage. Much of its European business will be centred on London, with several continental subsidiaries converted into branches. The group will also slash its non-Japanese fixed income business, shedding 50 front office jobs in London. The move will leave the broker focusing almost exclusively on Japan-related business, such as sales of international equities into the Japanese retail market and the provision of euro-yen instruments for corporate clients.

Nomura, Japan's largest broker, has not indicated if it plans to cut its overseas operations. However, the broker announced yesterday that a planned joint venture with Industrial Bank of Japan in derivatives products would start next year in London. Daiwa insisted that its cuts would give its operations more focus and avoid overlap in its

planned alliance with Sumitomo Bank. This alliance, which will start next year, entails three joint ventures in asset management and securities. Before the announcement, Daiwa's shares closed yesterday at ¥335, ¥14 down on the day and the lowest level for more than a decade. Daiwa had a consolidated operating loss of ¥14bn (\$102m) in 1997. It projected a 1998 operating profit of ¥25bn, but most analysts regard this as too optimistic.



BARRY RILEY

A fresh start for funds

Fund managers across Eurobond stock markets have been given a tough instruction: they must tear up the figures. The introduction of the euro in three months' time could signal the end of performance history, or expressed positively, the start of a new era. The order was issued in Brussels this week at the congress of the European Federation of Financial Analysts Societies (EFFAS). The EFFAS Permanent Commission on Performance Measurement has published a short but surprising three-page document, called "Guidelines in Respect of the Impact of Euro Conversion". The commission has been occupied with developing global investment performance standards in co-operation with America's Association for Investment Management and Research, and the euro question seems to have emerged out of the blue. The problem is what to do about investment performance numbers when there is a discontinuity in the currency. There are deceptive issues: for a while there may be no significant change. For two or three years it will remain acceptable to quote fund values in local currencies, even though the French franc and German mark, for instance, will by then simply be fixed ratio versions of the euro. It will seem natural to chain-link the performance

figures across the conversion date. To begin with the local currency version can continue. In due course the time series could be retrospectively converted to euros at the fixed exchange rate, generating what might appear to be a valid track record. But if you add apples and oranges you get a fruit salad. Consider two Eurobond funds, one formerly denominated in a soft Club Med currency such as the Italian lira and the other in a harder Northern currency such as the D-mark. Over several years the lira has depreciated against the mark, and nominal investment returns in Italy have been greater. Interest income has been much higher, bond prices have benefited from convergence and equity prices have boomed too, while non-Italian assets will often have appreciated in lire terms. So the former Italian fund will appear to have outperformed the former German fund when both are converted to euros next January. Certain forms of synthetic euro back histories have been devised. But there is no satisfactory way of reconstructing historical data in terms of a currency which did not exist at the time. The EFFAS Commission has therefore decided providers and users of performance comparisons will, in many cases, have to accept a discontinuity. Whether it can strictly enforce such a

principle on the basis of voluntary guidelines is another matter. Individual clients, however, can still be given performance numbers chain-linked across the conversion date. For them the historical data remain relevant, although the guidelines say that the original currency must be made clear. There may also be scope for so-called "composites" (groups of comparable portfolios) to be defined when the same pre-conversion currency has been used. League table rankings on this basis will still be valid, even if the absolute investment returns have little meaning. The introduction of the euro is bound to create a statistical fog, but at least it may be possible to prevent a wave of performance manipulation. In mutual funds, especially, there will be a lot of mergers as managers switch to new Eurobond benchmarks. Marketing men will have to be stopped from stringing together different currency histories in order to create table-topping performance. Will a discontinuity prove damaging? Investment purists argue there is no statistical link between past and future performance. European portfolio managers with good recent track records will not see it like that. But then there are an awful lot of struggling fund managers who will be only too happy to declare the end of history and start with a clean slate in January.

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COMPANIES & FINANCE: ASIA-PACIFIC

SEMICONDUCTORS JAPANESE GROUP AIMS TO RESTRUCTURE LOSSMAKING MEMORY BUSINESS

Nippon Steel to sell chipmaking division

By Alexandra Harney in Tokyo

Nippon Steel, Japan's largest steelmaker, is selling its semiconductor subsidiary to United Microelectronics, the Taiwan-based wafer foundry group, as part of a drive to restructure its lossmaking memory business.

The all-stock deal is the latest in a series of moves by Japanese chipmakers to reduce their exposure to the global dynamic random access memory (D-Ram)

market, which has been rocked by a collapse in prices in the past two years. Mergers and acquisitions are still rare in Japan, where companies prefer to rely on traditional *keiretsu* relationships to dispose of unprofitable businesses.

Nippon Steel will sell all its shares in Nippon Steel Semiconductor Corporation (NPNX) to UMC for ¥50,000 per share, a 68 per cent discount to the share price before the deal was

announced. UMC will pay ¥1.58bn (\$11m) for the shares. Nippon Steel, which owns 56 per cent of NPNX, will then dissolve the company and write off its accumulated debts.

The disposal of the debts will lead to ¥120bn in extraordinary losses at the parent level and consolidated losses of ¥85bn this year, Nippon Steel said. The group also lifted its earnings forecast as a result of the sale. Earlier this month, it

forecast losses of ¥15bn-¥25bn, but now anticipates ¥10bn-¥20bn in after-tax profits.

The deal marks Nippon Steel's withdrawal from the D-Ram market. NPNX, which manufactures 1-megabyte, 4-megabyte, and 16-megabyte D-Ram chips at one factory in Tateyama, outside Tokyo, has been in the red for the past two years. Last year, the group's net losses totalled ¥16.7bn on turnover of only ¥17.9bn.

Akira Chihaya, Nippon Steel president, said the group was unable to keep up with the rapid decline in D-Ram prices, and that a shift into foundry operations would have been too costly. "The technological scale of a logic foundry was too large for us to handle, and so we began negotiations with UMC," he said.

Analysts applauded the deal as a positive step for the industry. The big five steelmakers have warned of

losses this year. "That a very traditional Japanese company like Nippon Steel is selling one of its businesses is extremely unusual... the hope is that if the biggest company in the industry makes this kind of move, the others will follow," said Toru Nagai, steel analyst at Morgan Stanley Dean Witter. Shares in Nippon Steel jumped 5 per cent to ¥200. Trading in NPNX was suspended on the news of the deal.

Gas blast threatens carmakers

By Gwen Robinson in Melbourne

Australia's carmakers may be forced to suspend production after last week's explosion at a gas processing plant in the state of Victoria crippled industry in the region.

The plant, operated by Esso Australia, a unit of Exxon of the US, is part of a gas processing complex which supplied 98 per cent of the state's gas needs through a 50-50 joint venture with Broken Hill Proprietary in their Bass Strait gas and oil operation.

More than half the state's industry and commerce and the majority of homes depend on gas for power. The Victorian Employers' Chamber of Commerce estimated the initial impact of the disruption had cost industry about A\$35m (US\$20.4m) a day in lost output.

However, industry groups warned yesterday that lost manufacturing revenues would amount to A\$100m a day and that job losses would reach 100,000 if the crisis continued into next week. Some business leaders said they were considering legal action to seek compensation for lost revenues.

Esso said yesterday that a 300-strong team was working round the clock to restore gas supplies, but state officials feared the crisis could extend for another two weeks.



Bare necessity: Melbourne residents flock to electrically heated shower after gas was cut off. Reuters

Companies which have shut operations or laid off staff include BHP, which suspended steel processing operations in the state; Pacific Dunlop, which closed its three tyre plants; Amcor and Southcorp, the paper and packaging manufacturers; as well as hundreds of smaller manufacturers and service industries including hotels and restaurants.

BHP also declared force majeure on contracts from its Bass Strait operations, saying it would be unable to fulfil oil, gas and liquid

petroleum gas commitments. Esso made a similar declaration on Friday.

The plight of the country's four carmakers - Toyota Australia, Mitsubishi Motors Australia, Ford Motor and GM Holden - illustrates how the impact of the disruption has spread across state borders. Both Holden and Mitsubishi said yesterday they were preparing to close their South Australian operations, which relied on engines and other components sourced from Victoria.

Holden, Toyota and Ford estimated the disruptions would cost each of them A\$10m a day in lost sales.

The carmakers between them have laid off or forced leave on 13,000 workers since the disruption. If the crisis continued, about 56,000 workers would be affected, the Manufacturing Workers Union said.

Some companies, such as Coca-Cola Amatil, which bottles beverages in Victoria, have adapted swiftly: CCA said it would switch to diesel power at its Moorabbin plant from today.

CP Pokphand loses \$17.1m

By Ted Bardacke in Bangkok

CP Pokphand, the Hong Kong-listed arm of Thailand's giant CP Group, said yesterday that it lost US\$17.1m in the first half of 1998, compared with a profit of \$12.2m a year ago.

In China, where CP Group was once the single largest foreign investor, the company suffered a \$22.9m loss, against a profit of \$16.3m last year.

Hong Kong losses deepened from \$3.7m in the first half of 1997 to \$7.5m.

Thailand began to recover substantially, contributing gains of \$12.5m, compared with a profit of \$3.7m last year.

Nearly all divisions suffered losses, including the core agribusiness operations, which lost \$4.6m in the six-month period, compared with a profit of \$17.3m a year ago.

The company partially blamed the chicken flu outbreak in Hong Kong and flooding in China for the poor results.

Only manufacturing managed to report a profit, contributing \$15,000, compared with a loss of \$332,000 a year ago.

Retailing, trading and property operations all reported losses, while revenues fell 5.9 per cent from \$835m to \$820.7m.

This year, the company convinced holders of about \$100m in floating rate notes not to call in that paper early after warning that it would be unable to meet such obligations.

Since then, the CP Group, for which CP Pokphand often acts as a financial clearing house, has embarked on a big restructuring programme, shedding assets in China and slowing the pace of property development in Shanghai.

In Thailand, CP Group's core feedmill business is being consolidated into one listed entity, while the company has sold parts of its consumer and petrol businesses.

It is also seeking new investors and a debt restructuring deal for TelecomAsia, its telecommunications company.

Sumet Jiaravanon, CP Pokphand president and brother of CP Group chairman Dhanin Chearavanont, said that in spite of the announced losses the restructuring plans were beginning to bear fruit.

"If these half-year results are compared with the whole of last year's results, one can see that the company is actually making real progress, and that its policy of focusing on its core businesses will pay off in the long run," he said.

NEWS DIGEST

KOREA

New Kia Motors auction to be held by mid-October

South Korea yesterday said it would hold what it promised would be the final auction for the insolvent Kia motor group by mid-October. Two previous attempts were aborted this month because of demands for bigger debt write-offs by bidders.

The auction's organisers have invited Ford and General Motors of the US and Korea's three remaining carmakers, Hyundai, Daewoo and Samsung, to submit bids by October 12 with a decision to be announced a week later.

Bidders will be required to submit a combined maximum price of Won1,100bn (\$795m) for Kia Motors and its commercial vehicle division, Asia Motors, but organisers said they would be flexible on debt write-off demands. This they would ask bidders to state the size of the write-offs they desire on Kia's total debt of at least Won12,000bn. Creditor banks had earlier offered to eliminate Won2,900bn in debt, but this was considered inadequate by bidders.

Hyundai, Daewoo and Samsung have participated in the two previous auctions, while Ford dropped out of the second round because of Kia's large debts. After expressing initial interest, GM decided not to submit any bids in the earlier auctions. John Burton, Seoul

SRI LANKA

McDonald's to open next month

McDonald's, the US fast food giant, will open its first Sri Lankan franchise in mid-October. In August last year Abans Restaurant Systems entered into a 20-year franchise agreement to manage and run the McDonald's chain in Sri Lanka. The first phase of the operation, in Colombo, is estimated to cost \$3m, with plans for more restaurants in the outskirts of the capital that are expected to take five years and cost an additional \$5m.

Unlike in India, where McDonald's franchises are the only ones in the world with no beef on the menu, Sri Lanka will be offered the standard menu with the exception of pork. Two other US fast food chains, Kentucky Fried Chicken and Pizza Hut, started operations in Sri Lanka three years ago. McDonald's has nearly 20,000 restaurants in more than 95 countries. AP-DJ, Colombo

RETAIL

Daiei warns of first-half loss

Daiei, Japan's largest supermarket operator, warned yesterday that the restructuring and the deterioration of the domestic economy would force it into the red this term.

The warning of losses, of ¥983m (\$7.2m) on a parent basis compared with ¥1.5bn in net profits in the first half of last year, is considerably lower than earlier forecasts. In April, Daiei expected net earnings of ¥500m. The group, which suspended its half-year dividend, did not release a sales forecast for this year. Last year, Daiei made a ¥13 dividend payment and had planned to pay ¥5 per share this term.

The group's efforts to shed unprofitable assets and close stores in Japan have been stymied by the sharp decline in land and stock values amid the economic crisis in the region. Alexandra Harney, Tokyo

castorama

SIGNIFICANT STRENGTHENING OF OUR POSITION AS THE EUROPEAN MARKET LEADER IN DIY RETAIL

Castorama Dubois Investissements has signed an in principle agreement with Kingfisher plc with the aim of creating the leading European DIY retailer through the merger of Castorama SA and B&Q plc.

The new group will be the largest DIY retailer in Europe measured both by sales and profitability. On a combined pro-forma basis, its turnover for the year ended 31 December 1997 was approximately Fr 34 billion (£3.6 billion) and operating profit was approximately Fr 2.5 billion (£262 million). With more than 430 stores and representation in 9 countries, the new group will be the third largest DIY retailer in the world.

Because of the strategic importance of this operation for Castorama, which will become the number 1 DIY retailer in Europe, the associated commandités have agreed to structure this merger in the spirit of a joint venture partnership between the two groups.

The main features of the agreement in principle are:

- 1) Kingfisher will contribute 100% of the share capital of its subsidiary B&Q to Castorama. In consideration, Kingfisher will receive 54.6% of the fully diluted enlarged capital (after taking into account the exercise of all outstanding Castorama share options and the conversion of outstanding Castorama convertible loan stock). The voting rights attaching to these shares will be limited to 50% for a period of at least two and a half years from completion of the transaction.
- 2) Castorama Dubois Investissements will remain a "société en commandite par actions" and remain quoted on the Paris bourse.
- 3) To ensure equality in the control of the group, half of the commandités and management board members will represent the Castorama group and the other half will represent the Kingfisher group. Castorama and Kingfisher will each be represented by six members in the commandité. Kingfisher member's rights will match those belonging to the existing Castorama members of the commandité. In the case that the commandité structure is replaced, Kingfisher and, collectively, the existing members of the commandité shall each receive ordinary shares equal to 1.5% of the capital of the group.
- 4) The enlarged group will be managed by the "Conseil de Gérance" (management board) and will be headed by Jean-Hugues Loyez.
- 5) The chairman of the assemblée des commandités will be Sir Geoffrey Mulcahy.
- 6) Jean-Hugues Loyez and Sir Geoffrey Mulcahy will form an integration committee which will be responsible for

proposing solutions to significant issues that arise as the conseil de gérance. In addition, Jean-Hugues Loyez will be elected as a member of the Board of Kingfisher.

7) Mr Christian Dubois, founder of the Castorama group, will continue as President of the Conseil de Surveillance of the enlarged group.

8) At the end of the period of two and a half years, Kingfisher will have the option to end the principle of equal management representation. Kingfisher's voting rights will then rise from 50% to 54.6% and will also be entitled to a casting vote within the assemblée des commandités. If Kingfisher exercises this right, it will launch an all cash offer for the outstanding share capital of Castorama that it does not already own. The management will continue as described above until Kingfisher exercises this option.

The merger will be executed following the completion of the following outstanding matters:

- 1) Finalisation of legal agreements and documentation;
- 2) Satisfactory outcome of financial and legal due diligence;
- 3) Approvals and clearances from the competition authorities;
- 4) Approvals of the final terms of the transaction by the shareholders of Castorama and of Kingfisher.

The planned merger brings together the retail DIY concepts which have each demonstrated leadership in their respective markets. It should enable faster growth to be achieved by bringing together the skills and culture of these two domestic market leaders.

The transaction will give Castorama shareholders a direct interest in the UK leader in DIY retail. Over the last four years, the turnover of B&Q has grown at 12.9% p.a. and its operating profit has grown by 25.5% p.a. over the same period. In the year ended 31 January 1998, B&Q's sales were £1,752 million and its operating profit was £162 million. In the first half of 1998/9, B&Q sales were £996 million (10% ahead of the same period in the previous year) and its operating profit was £86 million (+19.3%).

In the first half of 1998, Castorama's sales were Fr 9,538 million (c. £1,000 million) (+18%) and its operating profit was Fr 483 million (c. £49 million) (+34%).

The proposed merger should be beneficial for Castorama shareholders reflecting both the merger terms and the opportunities for synergies and profit improvement. It fits closely with the development strategy adopted by the group over many years and achieves its objectives of consolidating its leadership position in Europe.

A document containing detailed information will soon be submitted to the Commission des Opérations de Bourse ("COB") with a view to having it registered and made available for shareholders following publication of the notice of shareholders extraordinary general meeting, which will be held before 31 December 1998.

CASTORAMA - Investors Relations - 59175 TEMPLEMARS - Tél. : (33) 03 20 16 75 11
Internet : <http://www.castorama.fr>

Speculation rages over PLDT

Telecoms group faces an uncertain future, writes Tony Tassell

Manila's financial community has been gripped over the past three weeks by speculation of a takeover of PLDT.

Analysts said Mr Cojuangco, a member of a leading Filipino business dynasty, had relied heavily on previous governments for support to retain control as he holds only a minority indirect stake in the company. They said the planned introduction of the "poison pill", which is being challenged by minority shareholders, indicated that the threat to Cojuangco's control may come sooner than later.

Potential candidates jostling for PLDT include key business and political figures along with a host of international companies including First Pacific, Cable and Wireless, American Insurance Group (AIG) and Telefonica, although the Spanish company has officially denied interest.

The key trigger for the speculation has been PLDT's plan to become the first Philippine corporate company to propose to introduce a "poison pill" into its articles of association to ward off a takeover.

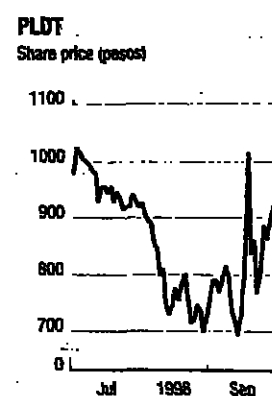
The move was widely seen as an attempt by Antonio Cojuangco, PLDT president, to shore up his tenuous control of the company after the election of the new Estrada government.

The reports have also speculated that Eduardo Cojuangco, an estranged uncle of the PLDT president and former crony of Marcos, may play a "white knight" role for PLDT using his political influence as chairman of the political party of Joseph Estrada, the Philippine president.

PLDT is vulnerable because of its open shareholding structure. Antonio Cojuangco's family controls Philippine Telecommunications Investment (PTIC), which in turn holds just 20.9 per cent of PLDT. However, a 46 per cent stake in PTIC is subject to an ownership dispute, sequestered by a government commission set up to retrieve ill-gotten wealth under the Marcos regime.

Analysts said Mr Cojuangco had been able to retain management control of PLDT with the support of two government bodies, the Social Security System (SSS) and the Government Service Insurance (GSI) which is believed to hold a stake of 23 per cent in the company.

The SSS fuelled speculation surrounding the company last week when it announced it had raised its stake in PLDT from about 7 per cent to 10 per cent, triggering rumours it was increasing its holding to sell on to another party. In the past few days, the rumour mill has focused on First Pacific as the buyer.



growing rumours it was increasing its holding to sell on to another party. In the past few days, the rumour mill has focused on First Pacific as the buyer.

Most of the rest of the shareholding is held by a range of investors with 35 per cent of the equity in the form of American Depository Receipts. Brokers say foreign investors had expressed strong opposition to the planned poison pill clause and may be looking to reduce holdings.

Analysts say there is still some scepticism about the rumours of a takeover for control of PLDT, but it is causing violent share price swings in a company which accounts for 11 per cent of the market capitalisation of the Philippines Stock Exchange, dragging the rest of the market with it.

Financial Times Surveys

Nordic Banking & Finance

Tuesday October 27

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COMPANIES & FINANCE: THE AMERICAS

TYRES US GROUP POINTS TO 'UNFAVOURABLE ECONOMIC CLIMATE' IN ASIA AND LATIN AMERICA

Profit warning hits Goodyear shares

By Nikki Tait
in Chicago

Shares in Goodyear Tire & Rubber, one of the world's three big tyre manufacturers, slumped about 7 per cent yesterday morning as it became the latest big US company to warn of a profits shortfall in the upcoming third-quarter earnings season.

Goodyear blamed several factors for the lower-than-expected result, saying the "unfavourable economic and financial environment" in both Asia and Latin America

was partly responsible, as was the strength of the US dollar.

There were also one-time costs related to the recent strike which caused serious disruption to production at General Motors, the largest carmaker in the US, over a two-month period.

Other costs were related to the "year 2000" computer issue and to changes in Goodyear's North American plant operations, such as moving them to 7-day working.

In an effort to combat cost pressures, Goodyear said

that it was accelerating its plans to rationalise its manufacturing and distribution operations worldwide and would axe about 800 jobs in the third quarter itself.

The company has instigated a stream of belt-tightening moves over recent years, taking out thousands of jobs and disposing of various "non-core" assets.

The result of these measures would be to cut profits back to \$10m-\$150m in the third quarter, against \$185m a year ago. Goodyear

said it now expected earnings per share to be \$1.15-\$1.20 fully diluted, compared with \$1.16 previously. It added that the third-quarter result would benefit from asset sale gains of about 20 cents a share.

Analysts had previously expecting earnings of about \$1.22 a share in the third quarter, according to the consensus forecasts from First Call. By lunchtime, shares in the tyre group had slipped 8.5g, to \$61.4, having already tumbled from a high of more than \$75 earlier this year.

In the first six months of 1998, Goodyear reported a profits increase, with earnings per share up by almost 8 per cent.

However, signs of problems began to mount when the company announced a sales shortfall in the second quarter and said total revenues had slipped to \$3.1bn, compared with \$3.3bn a year earlier.

At that stage, it put much of the blame on the strong US dollar, difficult economic conditions in some regions and the effect of the GM strikes.

Canadian energy set for more mergers

By Edward Alden in Toronto

The depressed state of oil and gas stocks in the Canadian oil sector has set the stage for a new round of mergers and acquisitions as companies with stronger balance sheets try to gobble up their weaker competitors.

Canadian 88 Energy, one of the country's largest gas producers, yesterday appointed takeover specialist J.P. Bryan as its new chairman. Mr Bryan, a former head of Gulf Canada Resources, said Canadian 88 was planning an aggressive acquisition campaign.

He said Canadian 88 had a strong balance sheet, with debt of just 1.5 times next year's anticipated cash flow. The company planned to focus on gas acquisitions, where share prices have been knocked down even though gas prices have been stronger than oil prices and have better prospects for near-term increases, he said.

"There is a lot of depression in prices and asset values in Canada today," Mr Bryan said. "I think it's a wonderful opportunity to be buying."

Alberta Energy Company last month highlighted the opportunities in the depressed oil sector when it mounted a C\$750m, or C\$7 a share, hostile takeover bid for Amber Energy, a junior exploration company.

Amber's board of directors yesterday unanimously urged shareholders to reject that bid, calling it "an opportunistic attempt" to take advantage of the sharp drop in Amber's share price.

The Amber board argued that AEC's bid represented less than half of the nearly C\$1.7bn in present value of proven and probable oil and gas reserves at Amber's Pelican Lake field.

Amber shares were at C\$4.55 at the time of the bid, down from a 52-week high of C\$27.35. The stock, which rose sharply after the bid, was trading at C\$7.35 midday yesterday, up 5 cents.

Mr Bryan was head of Gulf Canada Resources, the oil and gas company, from 1994 until last year, when he left because of conflicts with its board.

He took Gulf on an acquisition spree that included Mannville Oil & Gas, Pennzoil Canada, Clyde Resources and Stampeder Exploration, in the process tripling Gulf's stock price. But he left the company with more than C\$2bn in debt, most of it long-term, and the new management at Gulf has been selling some of those assets to bring debt down.

Accounting change eats into Cendant earnings

By Richard Waters in New York

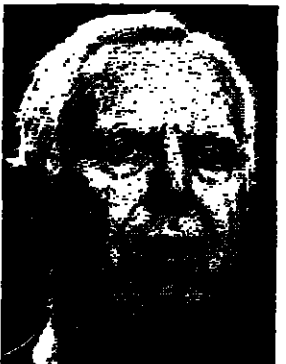
An accounting change required by the Securities and Exchange Commission will eat further into earnings at Cendant, the US franchising and direct marketing company reported yesterday.

Cendant revealed the accounting change the day after Arthur Levitt, SEC chairman, launched a campaign to try to stamp out the spread of accounting abuses among US companies.

News of the Cendant accounting change came in the company's long-awaited annual report restating its earnings since 1995 in the light of what it called "accounting irregularities and errors" at the former CUC International, which merged with HFS to form Cendant a year ago.

Those alleged frauds left the company with a restated loss of \$217m for 1997, or 37 cents a share, compared with the \$55m, or 6 cents a share, it originally reported.

The impact of the enforced accounting change was a small part of this, and would cut 7.9 cents a share from earnings this year, Cendant said.



Arthur Levitt in campaign to stop accounting abuses AP

the new members: in future, revenues will not be reported until the following year, when the new members can not get refunds.

Cendant said that, while eating into earnings this year, the change would have a beneficial impact next year, since it plans to cut its spending on acquiring new members in 1999.

AOL, for its part, agreed with the SEC to reduce the size of a merger-related charge it had taken.

The premature recognition of revenues and the write-off of so-called "in process R&D" are two of five areas of accounting that Mr Levitt singled out on Monday as common abuses that threaten to dilute the quality of US corporate reporting.

He also singled out the use of so-called "big bath" restructuring charges, the creation of "cookie jar" reserves, that companies can dip into to bolster profits in times of need, and the abuse of the materiality test to keep important information from shareholders.

However, the move represents the latest sign of the more aggressive approach that the SEC has promised. On Monday, America Online filed its own long-delayed annual report for 1997, including an adjustment required by the securities regulators.

In Cendant's case, the change represented a more cautious approach to reporting revenues from new members who sign up for its shipping clubs. In the past, revenues were taken in the same year as the expenses associated with acquiring

Levi Strauss shuts six plants

By Richard Tomkins in New York and Neil Buckley in Brussels

Levi Strauss, hit by shrinking demand for its trademark Levi's jeans, yesterday announced plans to close four factories in Europe and two in the US with the loss of more than 2,300 jobs.

The moves come less than a year after the company responded to its plummeting market share by announcing the closure of 11 US factories with the loss of 6,395 jobs.

Yesterday, the company proposed closing three factories in Belgium with the loss of 931 jobs, one in northern France with 530 jobs going and the axing of 100 European office jobs.

In the US, two finishing factories will close in Texas, with the loss of 980 jobs. Levi has struggled for several years to counter declining sales of its traditional five-pocket jeans, caused largely by its failure to capture the teenage market.

While the brand remained popular with ageing baby-boomers, Levi did not respond to fashions for wide-legged and baggy jeans.

Yesterday, Levi said European demand had been hit by a declining European youth population - set to fall 5 per cent by 2005.

It also cited an increased demand for non-denim products, the intrusion into its market of "own-label" brands and other competitors, and a shift in spending from clothes to other areas.

Levi said it had explored all alternatives to the closure plans, and was discussing them with its European works councils to find ways to alleviate their impact.

Carl von Buskirk, president of Levi Strauss Europe, said the group had reduced working time and manufacturing capacity by reorganising work schedules.

The Belgian closures provoked political protests yesterday. They are another blow to Flanders, little more than a year after Renault, the French carmaker, closed an assembly plant at Villvoorde with the loss of 3,100 jobs.

Both Elio Di Rupo, Belgian deputy prime minister, and Eric Van Rompuy, Flemish regional economy minister, demanded meetings with Mr von Buskirk.

Turmoil blunts Gillette's product launch

By Victoria Griffith in Boston

Shares in Gillette fell more than 5 per cent in morning trading yesterday, as news of the shaving equipment maker's dismal third quarter hit the market.

Late on Monday, the group announced it would cut 11 per cent of its workforce and take a \$535m pre-tax charge in a substantial reorganisation.

As the crisis in emerging markets worsened over the past few months, investors became wary of Gillette.

Even before yesterday's decline, its share price had fallen more than 38 per cent since its July peak. That compares with an 11 per cent drop in the Dow Jones Industrial average over the same period.

Investors seemed to have been caught off-guard by the extent of the damage to profits in the third quarter. However, Al Zeien, chairman, has pointed to savings of about \$200m a year once the restructuring is complete.

He believes the crisis in emerging markets will yield

opportunities for Gillette to expand its presence, as competitors go out of business or up for sale.

Mr Zeien also compared the profit impact of Gillette's new generation of men's razors - the Mach3 - to that of the previous product upgrade, the Sensor, in 1990.

The last time Gillette saw a downturn in quarterly profits was just after the introduction of the Sensor, as inventory and marketing expenses put pressure on earnings. The company quickly recovered, he said.

However, Mach3 has been far more expensive to make than the Sensor, costing about \$1bn in manufacturing upgrades and marketing.

Also, Gillette is facing some problems that may take some time to resolve. "This is not a one-quarter downturn," said Tony Zanto, an analyst at the securities firm Edward Jones. "Turnover in developing nations - which account for about 20 per cent of sales - is expected to continue."

While Mach3 is performing well in the US and Europe, it is questionable whether it will prove strong enough in other countries to lift the company out of its troubles.

"Gillette is pushing products in very mature markets," said one analyst. "Mach3 is a good one, but in the end it's just a blade cutting shavings. There's also the question of how much Gillette can boost its market share. It's already the dominant player in most markets. It's just not a convincing case."

See Observer

NEWS DIGEST

TELECOMS EQUIPMENT

Nortel in warning over lower revenue growth

Nortel Networks yesterday became the latest telecommunications equipment manufacturer to warn that revenue growth would be lower than expected this year and next. Earlier this month Nortel rivals Philips and Alcatel, Dutch and French telecoms equipment companies respectively, issued similar cautions, citing the financial crisis in Asia and Russia.

Investors responded by pushing the Canadian company's share price down 12 per cent, or C\$7.40, to C\$54.30 before trading was halted at midday.

Wes Scott, Nortel chief financial officer, told analysts' meeting in New York that revenue growth would be lower than expected for the next two quarters and into 1999, according to Rob MacLellan, an analyst whose firm attended the meeting. Nortel had predicted its recent US\$7bn acquisition of Bay Networks, the US data networking equipment manufacturer, would dilute profits in the fourth quarter but would be accretive in 1999. Analysts, however, were concerned that Nortel paid too much for the US group.

Scott Morrison and Ted Alden, Toronto

AEROSPACE

Embraer in partnership talks

Embraer, the Brazilian aircraft manufacturer privatised in 1994, is in talks with foreign manufacturers about a possible partnership involving the sale of a minority stake. Carlos Leoni Siqueira, managing director of Bozano Simonsen, the Brazilian investment bank which holds 29.97 per cent of Embraer's voting stock, said talks had been held with Dassault of France, Saab of Sweden and Boeing and Raytheon of the US.

The bank said there was no truth to reports last week that it was preparing to sell its stake and pass control to a foreign group. It continued to be "very satisfied" with its investment in Embraer, which reported first-half profits of R\$47.2m (US\$39.8m) and is on course to complete its first full year in profit since 1988. Its turnaround since privatisation is based on the success of its regional passenger jets. Outstanding orders and options are worth about US\$4.5bn. Industry sources say a deal with a foreign manufacturer could allow Embraer to expand its military division. Jonathan Wheatley, São Paulo

AVIATION SERVICES

AMR plans disposals

AMR, parent of American Airlines, the second biggest US carrier, has hired investment bankers to find buyers for the companies making up its AMR Global Services unit, which provides aviation services for about 200 airlines at 65 airports and other locations around the world. AMR said it wanted to focus on its core airline and related technology businesses.

AMR hopes to sell the businesses in the first quarter of next year. It said it had no plans to change the ownership of its core businesses, comprising American Airlines and American Eagle; Sabre, its computer reservation system and information technology division; and the remaining businesses in its management services group, including Airline Management Services and AMR Investment Services. Richard Tomkins, New York

CHEMICALS

Rhodia to sell Brazil unit

Rhodia, the French chemicals group majority-owned by Rhone-Poulenc, is preparing the sale of a Brazilian subsidiary, Rhodia-Ster, which is South America's biggest supplier of PET resins used in the manufacture of plastic bottles for soft drinks and food oils. No value has been put on the sale but it is understood to be about \$250m. Last year, Rhodia-Ster made a loss of R\$155m (US\$131m) on turnover of R\$383m. The sale is part of Rhone-Poulenc's worldwide move out of polyesters to concentrate on its core chemicals activities, which will account for 95 per cent of group sales. Jonathan Wheatley

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CONTRACTS & TENDERS

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The Comune di Roma hereby announces a public contest through private bids, according to Art. 89 of Reg. Contabilità Generale dello Stato no. 827/24, for the allocation in concession of the management of the council property complex called "Casina Valadier", situated in the public park of Villa Borghese - Pincio area, to be used for restaurant and entertainment activities, as well as for cultural and social events.

The structural and functional restoration of the building - protected under Laws 1497/39 and 1089/39 - must exploit its full potential and characteristics, as foreseen in the specifications, and most importantly, the quality of the services offered within the complex must be compatible with the prestigious nature of both the building and its environmental context.

Price at auction ITL 1,300,000,000 as the corresponding annual amount of the administrative concession foreseen for a period of 12 years.

For deadlines and application details, please refer to the call for bids and regulations which can be consulted both at the Albo Pretorio (L.go Corrado Ricci 44 - Rome) from 9am to 12pm, Monday to Saturday, as well as at the Dipartimento III (Lungotevere Cenci 5 - Rome) and at the district offices from 9am to 12pm, Monday to Friday. The deadline for the presentation of offers is 12pm on 26/10/98.

The call for bids was published in the Official Gazette of the Italian Republic on 17/9/98 and was sent to the Office of Official Publications of the European Community on 14/9/98.

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Dot.ssa L. Zambriani

NOTICE TO BONDHOLDERS

Notice to Holders of the
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Bondholders will be aware that in December 1992 the Guarantor was placed in a liquidation pursuant to Spanish Insolvency Law and that the receivers of the Guarantor were appointed by the Spanish Courts. The Trustee was advised that the receiver of the Guarantor recognised the Insolvency claim in the Insolvency proceedings. There is also the question of how much Gillette can boost its market share. It's already the dominant player in most markets. It's just not a convincing case."

Following our Notice to Bondholders dated 4th August, 1995 an interim distribution was made to Bondholders on 11th August, 1995, following our notice dated 21st July 1997 a second distribution was made on 28th July 1997, and following a further notice dated 30th January 1998 a third distribution was made on 6th February 1998.

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COMPANIES & FINANCE: INTERNATIONAL

CEMENT INDONESIAN GOVERNMENT ACCEPTS \$114.6m OFFER FROM MEXICAN PRODUCER

Cemex acquires stake in Semen Gresik

By Sander Thoenes in Jakarta and Henry Tricks in Medan City

Indonesia's government yesterday accepted a \$114.6m offer by Cemex, the Mexican cement company, for a minority stake in Semen Gresik, a partially privatised cement mill.

The announcement marked the first sale in two years of government shares but returns were well below expectations. Most other privatisations have been stalled, leaving Indonesia far short of the \$1.5bn it had

hoped to raise from 12 such sales this year.

Heidelberg Zement of Germany, Holderbank of Switzerland and Lafarge Asia Pacific of France registered for the tender but declined to make any counterbids after Indonesia first declared Cemex the preferred bidder and then reduced the sale from 35 to 14 per cent.

Cemex offered \$114.6m, or \$1.38 a share, similar to its original bid for 35 per cent but without the additional investments it had pledged.

Cemex shares were down about 2 per cent in Mexico in early trade yesterday, reflecting concerns that the bid was too high.

Gresik shares are currently trading at more than half the price Cemex paid for them, and analysts said the premium was only justified if the Indonesian government allowed Cemex to increase its stake to a majority within three years.

"Cemex is stuck with a minority stake that it could have bought in the market for 60 cents a share. I think

they should have bid lower given the uncertainty," said Gordon Lee, a cement analyst at Deutsche Bank Securities in Mexico City.

Last week, Cemex said it had the right of first refusal to buy the Indonesian government's remaining shares within three years at today's purchase price plus 8.2 per cent per year.

"We welcome the finalisation of this process and are pleased to be an investor in Indonesia's future," Lorenzo Zambrano, Cemex chairman, said. The Indonesian govern-

ment last month suddenly dropped plans to sell a majority stake in Gresik after two small and peaceful protests against foreign ownership at two mill sites.

Gresik reported Rp145.1bn (\$13.4m) in net profits for the 1998 first half, against Rp87.4bn in 1997, despite Rp21bn in foreign exchange losses and Rp145.5bn in interest expenses. Sales rose 84 per cent to Rp961.8bn while competitor sales slowed due to the economic crisis. Sales are expected to fall in the second half.

Cemex has said it hoped to use Gresik as a source for the Rizal cement plant in the Philippines, in which it bought a 30 per cent stake last year. The slump in demand in Asia has forced Gresik to run at 55 per cent of its 12.7m tonnes capacity. Javier Bofarull, president of Cemex Asia, has said he expected Gresik to sell only 8m tonnes domestically this year but he expected an annual growth of more than 6 per cent for Indonesia's domestic market once the economy picked up.

DaimlerChrysler meets on staff

By Haig Simonian in Paris

Daimler-Benz and Chrysler will identify the 250 managers expected to run the merged group after their deal closes in mid-November.

Preliminary selection of DaimlerChrysler's executives below boardroom level began at a meeting of the two companies' boards in Stuttgart on Saturday.

The process will be cemented by a meeting of the top 300 staff in early December to discuss strategy, culture and long-term targets. In the interim, work will accelerate on identifying big cost savings.

Jürgen Schrempp, Daimler-Benz chairman, said the two companies had set up 98 "issue teams" to identify and implement savings. The teams, of four and six senior staff, are drawn equally from Daimler-Benz and Chrysler executives.

Their recommendations would be put to the Chairman's Integration Board - the top management level of DaimlerChrysler.

Mr Schrempp, at the Paris motor show, said the board would decide whether to implement the suggestions, set a timetable and monitor progress. The suggestions "will have a quantifiable impact on the bottom line", he said.

Mr Schrempp said some of the teams had already made preliminary recommenda-



Century bold: Chrysler shows its concept car at the 100th Paris motor show

tions. However, for legal reasons, implementation had to wait until closure. "By the time of closing, we will have set up everything," he said.

Recommendations made so far confirm Daimler-Benz's dominant role in areas, such as advanced engineering technology, where it has traditionally spent heavily.

However, Bob Eaton, Chrysler chairman, said his company would dominate in some technologies, such as electric vehicles, where it had "pockets of excellence".

According to the preliminary plans, Daimler-Benz vehicles would generally be

the first to introduce new technology to its vehicles.

Both men stressed product development would continue independently, with no shared platforms. "However, we will be sharing engines and components of all types," said Mr Eaton.

In the short term, one of the quickest benefits would come in the combination of the financial services arms of the two groups, he said. Peugeot-Citroën of France and Ford of the US yesterday announced plans to develop jointly a family of small diesel engines, writes David Owen in Paris. The

move, a new example of project-by-project co-operation between leading international carmakers, was described by Jean-Martin Folz, Peugeot-Citroën chairman, as "our response to the challenge of globalisation".

The estimated FF2bn (\$355m) cost of the project, which has a targeted development time of two-and-a-half years, will be shared.

The new engine will be produced in the Douvria plant in France and will replace the so-called TUD engines currently used by the small Peugeot 106 and Citroën Saxo models.

Metra blames Asian crisis for falling profits

By Tim Surt in Stockholm

Metra, the Finnish engineering, ceramics and steel group, yesterday warned that market turmoil in Asia and cost overruns would undermine profits this year at Wärtsilä NSD, its largest division.

The company has launched a cost-cutting study, which is likely to result in several hundred job losses at Wärtsilä NSD, one of the world's leading suppliers of industrial diesel engines.

"We are in discussions with unions and employee representative about possible redundancies in Sweden, the Netherlands, Switzerland and France," said Sven Berdlin, head of manufacturing at Wärtsilä NSD.

The division relies on Asia for about 40 per cent of its sales.

Mr Berdlin said demand had collapsed in Indonesia, its largest single market, where sales in the first four months of this year fell below FM50m (\$3.5m), compared with full-year turnover of FM78m in 1997.

Senior Metra officials emphasised, however, that the problems would not

affect its proposed three-way demerger, planned for mid-1999.

Under that proposal, Wärtsilä NSD and Metra's finance activities are to become a single diesel and gas engine company listed on the Helsinki stock exchange. Sanitec, Metra's bathroom products company, and its Imatra Steel division will be quoted separately.

The company said those two divisions were trading in line with forecasts. It predicted, moreover, that its full year profits would be enhanced by a capital gain on shares sold in Assa Abloy, the Swedish security equipment company.

Further details of the restructuring are expected to be announced next month.

Of the likely redundancies, some 200 jobs will go at Wärtsilä NSD's manufacturing plant in southern Sweden as production is moved to the Netherlands.

Further job losses are also expected at four sites - two in France and two in the UK - operated by the joint venture company Cummins Wärtsilä Engines.

Metra's most commonly traded B shares fell FM0.50 to FM101.

NEWS DIGEST

ITALY

Parmalat to postpone L1,000bn capital increase

Parmalat, the acquisitive Italian food group, yesterday postponed a controversial L1,000bn (\$602m) capital increase due to turbulence in world financial markets. The company, which lifted first-half pre-tax profits 36 per cent to L227bn on a 43.5 per cent increase in group revenues to L4,582bn, said it had no current need for fresh funds. The planned capital increase had come under fire from financial analysts because it involved only non-voting savings shares. Paul Betts, Milan

FINANCIAL REGULATION

Analysts agree ethics code

International associations of financial analysts have agreed on a code of ethics and professional standards, designed to "enhance the credibility of investment professionals throughout the world". It has been developed by a task force of the International Council of Investment Associations, a body that brings together analysts from the US, Europe, Asia, Latin America and elsewhere.

Launching the code at this week's congress of the European analysts' federation in Brussels, David Damant, president, said that at a time when regulators were becoming more and more involved in the investment industry it was important for the profession to set standards of its own. The code is not mandatory, however. Barry Riley

BROADCASTING

Mediaset rises 14.5% midway

Mediaset, the Italian television group controlled by Fininvest, the holding company of former Italian prime minister Silvio Berlusconi, reported a 14.5 per cent rise in first-half pre-tax profits to L570bn (\$403m) on a 13.1 per cent increase in consolidated net revenues to L1,982bn.

The media group, currently in talks to form a European television alliance with Germany's Kirch group and Rupert Murdoch's News Corp, said advertising revenues for the first nine months of the year were 11.5 per cent higher than those of the same period last year. Paul Betts

INFORMATION SERVICES

China Internet in Taiwan deal

A Hong Kong-based internet firm majority-owned by China's official Xinhua news agency said yesterday it had clinched its first commercial deal with Taiwan's official Central News Agency (CNA).

China Internet, about 60 per cent owned by Xinhua, said it would repack, promote and sell real-time business news from CNA, via the Internet, to subscribers in mainland China and Hong Kong.

Internet users will be able to subscribe to the product via China Internet's website. Beijing regards Taiwan as a renegade province that must be brought under its rule, putting the two frequently at odds. China Internet hailed the deal as providing an information link between Taiwan and the mainland. Reuters, Hong Kong

EUROPE FINANCE ET INDUSTRIE

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Net profit for fiscal period ended March 31 1998 (nine months): FF12.2 millions

The Annual General Meeting of the shareholders of the Company, which was held on July 17 1998, approved the accounts for the nine month period ended March 31 1998

Financial Results

The turnover for the nine month period ended March 31 1998 was FF49.8 millions compared with FF40.0 millions for the twelve month period ended June 30 1997 (an increase of 25 percent as of March 31 1998 and of 49.5 percent for the comparable period). The net after tax profit for the period ended March 31 1998 was FF12.2 millions compared to FF8.0 millions for the period ended June 30 1997, an increase of 52.5 percent

Dividend

The dividend approved by the Annual General Meeting, and paid on August 31 1998, was FF27.00 net per share, together with a tax credit of FF13.50, compared with FF20.00 and FF10.00 respectively.

Projections

In the period from January 1 1998 through September 15 1998, Europe Finance et Industrie completed 33 Initial Public Offerings on the Paris Stock Exchange compared with 30 introductions carried out in the full twelve months ended December 13 1997. A further 45 introductions are already in hand for the period between September 15 and December 30 1998 and others are in negotiation. Between now and the end of the calendar year 1998, the market share of Europe Finance et Industrie should approach 50 percent of all Initial Public Offerings effected on the three compartments of the Paris Stock Exchange dedicated to small capitalisation companies (Second Marché, Nouveau Marché and Marché Libre).

The Company is thus well placed to maintain the acceleration in its growth and prospects and in particular the development of its activities in Europe.

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In accordance with the terms and conditions of the above-mentioned Notes notice is hereby given that the Rate of Interest has been fixed at 5.475% per annum and that the interest payable on the relevant Interest Payment Date March 31, 1999, against Coupon No. 28 in respect of U.S.\$10,000 nominal of the Notes will be U.S. \$278.06.

Global Agency and Trust Services, Citibank, N.A. London September 30, 1998. **CITIBANK**

CITICORP

U.S. \$350,000,000 Subordinated Floating Rate Notes Due November 27, 2035

Notice is hereby given that the Rate of Interest has been fixed at 5.475% in respect of the Original Notes and 5.5625% in respect of the Enhancement Notes, and that the interest payable on the relevant Interest Payment Date October 30, 1998 against Coupon No. 156 in respect of U.S.\$10,000 nominal of the Notes will be U.S.\$45.63 in respect of the Original Notes and U.S.\$46.35 in respect of the Enhancement Notes.

U.S. \$500,000,000 Subordinated Floating Rate Notes Due October 25, 2005

Notice is hereby given that the Rate of Interest has been fixed at 5.475% and that the interest payable on the relevant Interest Payment Date October 30, 1998 against Coupon No. 156 in respect of U.S.\$10,000 nominal of the Notes will be U.S. \$35.445.63.

Global Agency and Trust Services, Citibank, N.A. London September 30, 1998. **CITIBANK**

Notice of Market Price Adjustment to the Noteholders of **MTI Capital (Cayman) Limited** \$100,000,000 0.5 per cent. Mandatory Exchangeable Subordinated Guaranteed Notes Due 2007 (the "Notes")

exchangeable for shares of common stock of and guaranteed on a subordinated basis by **The Mitsui Trust and Banking Company, Limited** (the "Bank")

Notice is hereby given that, the Exchange Price at which the Notes may be exchanged into Shares of the Bank, will be adjusted in accordance with the Section 14.4(a) of the Indenture dated September 22, 1997 among MTI Capital (Cayman) Limited, the Bank, and Citibank, N.A. as Trustee, relating to the Notes, effective from October 1, 1998. The Exchange Price immediately before such adjustment has been Yen 841 and the Exchange Price after such adjustment will be Yen 850.

MTI Capital (Cayman) Limited September 30, 1998

U.S. \$30,000,000

CRÉDIT D'ÉQUIPEMENT DES PETITES ET MOYENNES ENTREPRISES

Undated Subordinated Floating Rate Notes

For the Interest Period from September 30, 1998 to March 30, 1999 the rate has been determined at 7.05% per annum. The amount payable on March 30, 1999 per U.S. \$1,000,000 principal amount of Notes will be U.S. \$35,445.63.

By: The Chase Manhattan Bank London, Agent Bank September 30, 1998 **CHASE**

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INFORMATION TECHNOLOGY

INFORMATION TECHNOLOGY INTERNET TRAFFIC TOOLS

Web miners hit a rich seam

Alan Stewart samples a rush of software to help companies find out how many people visit their web sites

The internet is growing up. Company web sites, often little more than an electronic annual report in the early days of the world wide web, are becoming an extended sales and marketing arm, and potentially a powerful way to interact with customers, shareholders and investors.

But how can web site operators find out how many people are visiting their sites, how long they are staying, and what web pages they like best? The answer is to use site analysis software, which has matured relatively quickly from an obscure offspring of the internet industry into an established market.

Rick Kreysler, chief executive of Accrue, one of the leaders in web site tracking software, says: "Traffic analysis is fundamental to doing successful business on the web. It provides the empirical data you need to make a web business more effective and profitable."

Independent analysts agree. Juliana Nelson, a senior analyst at International Data Corporation (IDC), the IT market researcher, says it is becoming increasingly important for companies to understand their web site traffic. Building up a detailed picture of site activity enables companies to target users and to build a closer one-to-one relationship, she says.

Just as company web sites come in all shapes and sizes, so there are different web-tracking tools to match.

Basic site-reporting software is aimed at companies with low-traffic sites. Some of these tools, such as WebTrends' market-leading Log Analyzer, date back to before consumer use of the internet exploded in 1994, and sell for only a few hundred dollars.

At the other end of the scale, and costing thousands of dollars, are the sophisticated tools aimed at companies with complex, heavily used corporate sites. WebTrends recently released Server Cluster Add-On, which caters for sites running on between two and 100 servers.

WebTrends' tools read data held on log files, which record web site activity and

A plug-in will show when audio and video files are being played

are produced by web server software from companies such as Netscape, Microsoft, and Sun Microsystems. Big users of its log analysis tools include AT&T, Intel, MCI, Westinghouse and the US House of Representatives.

Also aiming at the enterprise end of the market are network-based web site activity analysers from companies such as Andromedia, Marketwave and Accrue. These tools analyse traffic in real time.

They also provide capabilities such as advanced "web mining" techniques to manipulate data, and the ability to monitor multiple servers.

A fresh addition to Marketwave's package, for example, is the ability to add "plug-in" software to report on how audio and video is being used by web site visitors as well as by employees using a company's intranet. The plug-in will show when audio and video files are being played, paused, aborted or even fast-forwarded.

Prominent among the users of traffic analysers are publishers with online versions of their newspapers and magazines. Both Newsweek Interactive and Mercury Center, the online editions of the Washington Post and San Jose Mercury News, use Accrue's Insight tracking software.

Chris Coluzzi, Mercury Center's software development manager, describes using the software as the equivalent of a broad focus group, where the group is a company's total customer base, and the focus is on how they interact with its site.

In the UK, Associated News Media, the online arm of Associated Newspapers, is using Andromedia's Aria package on its "This is London" information site.

The software is also used on its UKplus UK-specific search engine, and on Soccer.net, a football site launched in 1995 by a 12-year-old boy as an after-school project.

Online publishers need to provide their advertisers with audited "circulation" figures. "Advertisers must



be certain they are getting what they're paying for," says Michael J. Lavery, president of the US Audit Bureau of Circulations (ABC).

Marketwave, Accrue, netGenesis and Andromedia have all adapted their software to support standards for independent verification of web site traffic.

These standards have been developed by ABC's online unit, ABC Interactive, which audits web sites, search engines, e-mail delivery systems, chat rooms and internet broadcasters.

A different type of user is using Andromedia's Aria package on its "This is London" information site.

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Graphics group's card turns PCs into digital movie players

As Digital Versatile Disc (DVD) players begin to replace CD-Rom drives on personal computers, PC owners who upgrade their systems will also need a specialised graphics plug-in card to turn their machines into DVD movie players.

To meet this demand Videologic, the UK-based high performance graphics technology group, has launched a low-cost PCI add-in card called DVD Player.

The device, when combined with a standard graphics card, provides high-definition, full-screen video with Dolby Digital audio even on Pentium 133hz machines that would otherwise be too slow.

The card, which runs under Windows 95 or 98, can provide video output to either a PC monitor or an ordinary television set. For the corporate market, Videologic is expected to launch a professional version of the product that will also run under Windows NT early next year.

Kodak improves the image of digital cameras

Early digital cameras aimed at the consumer market were expensive and unable to produce the quality of image expected by traditional 35mm SLR camera users. However, new models have solved each of

these problems. Kodak's DC210 Plus zoom digital camera costs slightly less than £500 and builds on the success of its predecessor, the DC210, while the £900 DC260 provides 1,536x1,024 pixel resolution, a 3x optical zoom and a host of "smart" features.

Fuji of Japan has added to its digital camera portfolio, which includes the pocket-sized MX-700, with the budget priced DX-8 for £200 and the 1,280x1,024 pixel MX-500 for £450, and Germany's Agfa group, part of Bayer, has launched the 1,800x1,200 pixel ePhoto 1680 for £500.

MGI Software, the Canadian software group, has launched a redesigned photo-editing package called MGI PhotoSuite II which it claims is the first of its kind to integrate internet browser technology.

The package, at £49.99, is designed for beginners and advanced users alike. www.kodak.com www.fuji.co.uk www.agfa.co.uk www.mgisoft.com



INFORMATION TECHNOLOGY BRIEFS

Pocket-sized smartphone

Alcatel, the French telecoms equipment group, has

launched some innovative mobile phone products. These include the One Touch Com which Alcatel claims is the first pocket-sized smartphone to integrate three services: GSM mobile phone; personal organiser; and internet e-mail terminal. The slim package weighs less than 240g.

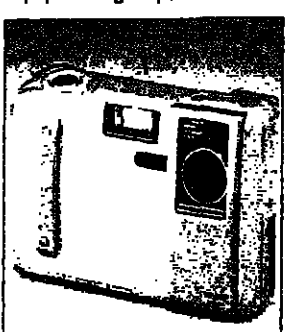
The One Touch Com features a large graphic touch display and stylus pen that replaces traditional telephone keys. Alcatel's other new machines include the One Touch View with a large screen capable of displaying 75 characters at a time and the One Touch Pocket that combines a large display, built-in vibrator and integrated data capability in a shirt-pocket sized package. www.alcatel.com

Scientists, researchers and corporate engineers need what Charles Digate, chief executive of MathSoft International, calls "a core environment where they can perform all their quantitative operations in an individual, team or organisation-wide setting". Mathcad 8 Professional, described as "the most advanced calculation application available" in a desktop package, is designed to meet this need by combining maths, visualisation and the ability to collaborate.

Mathcad 8 costs £395 plus VAT, and can be ordered online in the UK from Adept Science at www.adaptscience.co.uk. www.mathsoft.com

Desktop solution for mathematics

Mathcad 8 costs £395 plus VAT, and can be ordered online in the UK from Adept Science at www.adaptscience.co.uk. www.mathsoft.com



Finger on the digital button: Fuji's new MX-500

CONTRACTS & TENDERS

BANK OF CRETE S.A. ANNOUNCING A PUBLIC CALL FOR TENDERS FOR THE TOTAL ASSETS OF ECON INDUSTRIES S.A.

The Bank of Crete S.A. (15 Vasileosofias Street, Athens 106 71), as special liquidator of the company ECON Industries S.A. established at Markopoli, Attica, hereafter "the company" which has been placed under special liquidation as per article 46a of Law 1892/90 by decision No. 7164/1998 of the Athens Court of Appeal

ANNOUNCES

A Public Call for Tenders, with sealed, binding offers for the purchase of the total assets of the company referred to below:

BRIEF DESCRIPTION

The Company was established in 1969. In May 1997, it ceased to operate and on 22-07-98 it was placed under special liquidation in accordance with article 46a of Law 1892/90. The company's function was the manufacture and sale of engineering, electro-optical and electronic products.

ASSETS FOR SALE

- The assets for sale consist of:
 - An industrial complex in the premises of the municipality of Markopoli, Attica, on a plot of land about 50,000sqm in area with buildings covering about 3,200sqm and 1,500sqm under construction (concrete panels).
 - An industrial complex in the premises of the municipality of Spata, Attica, on a plot of land of about 52,800sqm with buildings covering about 4,800sqm with screw and bolt manufacturing machinery.
 - The electro-mechanical equipment of the factory consists of:
 - A Fluting Shop which contains seven (7) CNC tooling machines (milling centers, lathes, revolving lathes) and nine (9) conventional tooling machines.
 - An Optical Department which contains optical fabrication, optical coatings and auxiliary measuring and checking equipment.
 - An Electronics Department which contains equipment for fabricating and checking printed circuit boards and other electro-optical elements.
 - A Quality Control Department.
 - A B-class Workshop with small, conventional machine tools and equipment for processing small surfaces and small, non-precision pieces of older technology.
 - Air conditioning installations, electrical firefighting equipment, a telephone exchange and security systems.

Also for sale are the company's name, its trade mark, its participations in related companies, any claims it may have and any other element of its assets.

OFFERING MEMORANDUM - ADDITIONAL INFORMATION

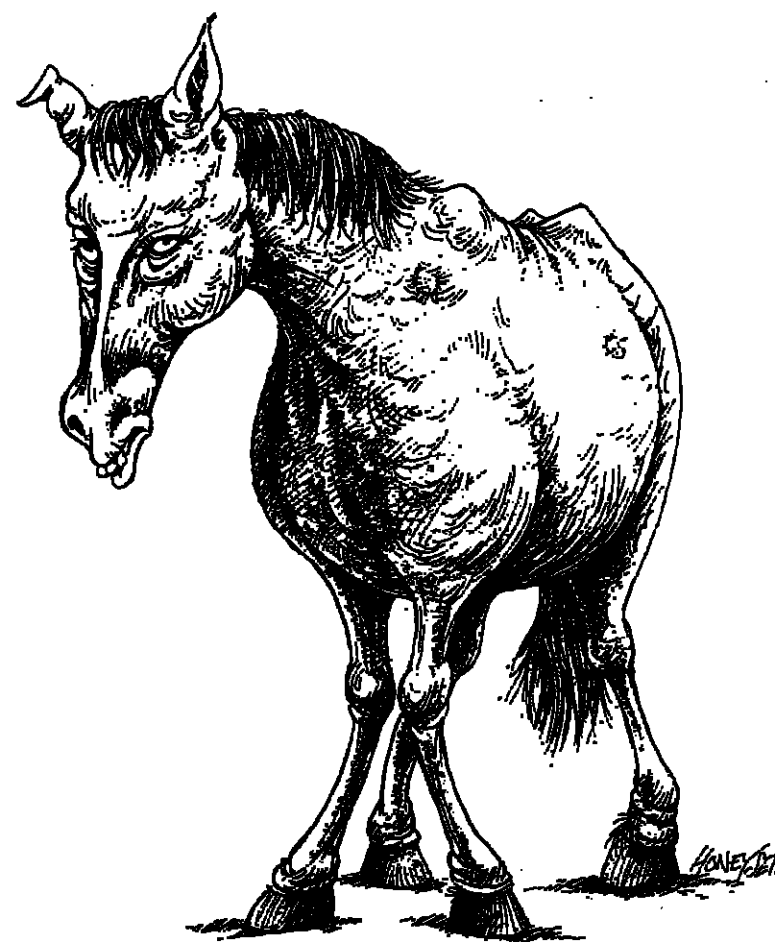
Interested parties may obtain a detailed Offering Memorandum and any other information on signing a Confidentiality Agreement.

TERMS OF THE CALL FOR TENDERS

- The tender will be conducted in accordance with the provisions of article 46a of Law 1892/1990 as supplemented by article 14 of Law 2009/1991 as in force today; the terms contained in the present call for tenders and the terms contained in the Offering Memorandum regardless of whether they are repeated herein. The submission of a tender implies the acceptance of all these terms.
- For more complete information on the company for sale, interested bidders may obtain, on signature of a confidentiality agreement, a detailed Offering Memorandum and may ask for any other additional information.
- In order to participate in the tender, interested parties must submit a sealed, binding offer in writing to the Athens Notary Public assigned to the Tender, Olga Fotopoulou-Hatzilazariou at 77 Solon Street, 6th floor, tel. (011) 3617704. Offers must be submitted on or before 10.00 a.m. by a legally authorized representative of the bidder, the deadline will not be accepted or taken into consideration. Offers must not contain terms which engage upon their acceptance or which create obligations on the part of the company and the creditors have the right, at their absolute discretion, either to reject offers which contain terms or conditions, regardless of whether they are higher than others, or to consider these terms as non-written, in which case the offer remains binding as to the rest of its content.
- Offers will be accompanied, by a Letter of Guarantee from a bank legally operating in Greece, to the amount of two hundred and fifty million drachmas (Grs. 250,000,000) as per specimen form contained in the Offering Memorandum. This letter of guarantee will be valid until the return to the guarantee bank and will guarantee both the content of the offer submitted and any subsequent improvement to it.
- The offer will be sealed by the notary public in his office at 12 noon on Monday, 27 November 1998. Persons having submitted bids by the deadline are entitled to attend the unsealing of the bids.
- Offers must specify the price offered and the time and method of payment. In the event that part payment is to be on credit, the offer must state whether it will be interest-bearing and at what rate, as well as what guarantees there will be to ensure its payment.
- The following are essential criteria for evaluating the offers:
 - the size of the offered price
 - the guarantees for payment of any part on credit and for abiding by the rest of the terms underwritten
 - the creditworthiness and reliability of the party concerned.
- On the terms contained in the offer as well as on any other terms that may be agreed upon, the bidder must accept conditions additionally covered by practical or other securities which will guarantee abidance by his obligations.
- The elements which make up the assets of the company are being sold and will be transferred "as is, where is" and none specifically in their actual and legal condition and at the place where they are situated on the date of signature of the sale contract. The liquidating company, the company in liquidation and the creditors are not liable for any real or legal defects or lack of any particulars of the objects for sale, nor for any imperious or inadequate description of them in the Offering Memorandum. Interested bidders, must, on their own responsibility and at their own expense, make their own inspection of the objects for sale. The submission of an offer implies that the interested parties are fully informed with regard to the actual and legal condition of the objects for sale.
- In the event that part payment is on credit, the present value will be taken into account in evaluating the offer, which will be calculated on the basis of the interest rate in force, at the time of submission of the offer, for Greek Government bonds of one year's duration.
- In the event that the person to whom the assets of the company under liquidation are sold fails in his obligation to appear at the time and place specified in the liquidator's invitation, in order to sign the relevant contract in accordance with the terms of the present Announcement and of his offer, as finally composed, then the guarantee, as above, is forfeited in favour of the liquidator and the creditors in order to cover all expenses of any kind, time spent and real or paper losses sustained, with no obligation to provide proof of such, and consider the amount as a penalty clause and collect it from the guarantee bank.
- The liquidator bears no responsibility towards participants in the auction, both with regard to the report assessing the offers or to his proposal of the highest bidder. Also, he is not liable and has no obligation to the participants in the auction in the event that the auction is cancelled or declared null and void if its result is deemed unsatisfactory.
- Those parties taking part in the auction and submitting offers do not acquire any right, claim or demand from the present Announcement and from their participation in the tender, against the liquidator or the creditors for any cause or reason.
- According to para. 13 of article 46a of Law 1892/1990 the sale contract and the necessary transfers stemming from it and any other relative transaction are exempted from, direct or state or third party rights or stamp duties, while the rights and fees of notaries, lawyers, supervisors and mortgages are restricted to 30%. Any expenses incurred at the sale of the assets (VAT, the fees of lawyers, notaries and mortgages, judicially supervised, not) rights and other expenses are to be borne by the buyer. The present was drafted in Greek, and translated into English. However, in the event of differences occurring in translation, the Greek text will prevail.

In order to obtain the Offering Memorandum and for any additional information, interested parties may apply to the liquidator:

BANK OF CRETE S.A. 15 Vasileosofias St. 106 71 Athens, Greece
Tel. (011) 3623001-4. Fax: (011) 3611113 (att. Mr. Z. Karamandis or Mr. N. Stasinos)
or at the company's establishment at
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EQUITIES

Bourses muted as 'wait' goes on

EUROPEAN OVERVIEW
By Philip Coggan,
Markets Editor

For the third week running, European markets spent a session "waiting for Green" as they looked forward to the announcement from the US Federal Reserve chairman of an interest rate cut last night.

While movements in most bourses were fairly muted as investors awaited the news from Washington, Frankfurt suffered a 1.65 per cent loss on concerns about the outcome of the negotiations between the Social Demo-

crats and Greens on a new administration. German utilities stocks were nervous about the Greens' involvement.

The FTSE Eurotop 100 index fell 10.98 or 0.5 per cent to 2,338.82 while the broader Eurotop 300 index dropped 6.02 to 1,023.01. The FTSE Ebluc 100 index, comprising stocks in countries planning to join the single currency, slipped 5.5 to 845.7. The Ebluc index was over 1,100 in mid-July.

Alcoholic beverages was the best-performing sector of the day, gaining 3.78 per cent. Diageo led the way, rebounding Ecu 0.7 to Ecu

7.94 amid rumours of disposals following the losses sustained after its statement last week.

Healthcare was another strong performer although this was due to an Ecu 0.2 rise to Ecu 5.74 in the thinly traded Nycomed Amersham.

Information technology was the worst-performing sector, dropping about 3 per cent, as SAP preference shares, a volatile stock in recent weeks, fell Ecu 25.9 to Ecu 426.25.

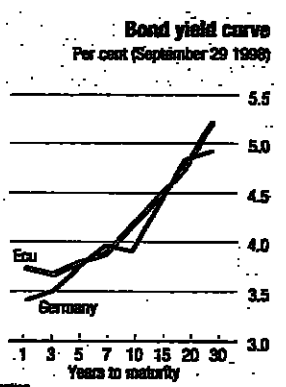
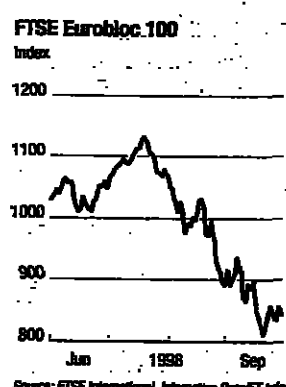
The other financial sector was another loser, with the Italian group IMI dropping Ecu 0.7 to Ecu 11.61.

Analysts continued to

reassess the prospects for European corporate earnings which looked so rosy only a couple of months ago.

"1999 earnings estimates look increasingly vulnerable," the European team at ABN Amro said.

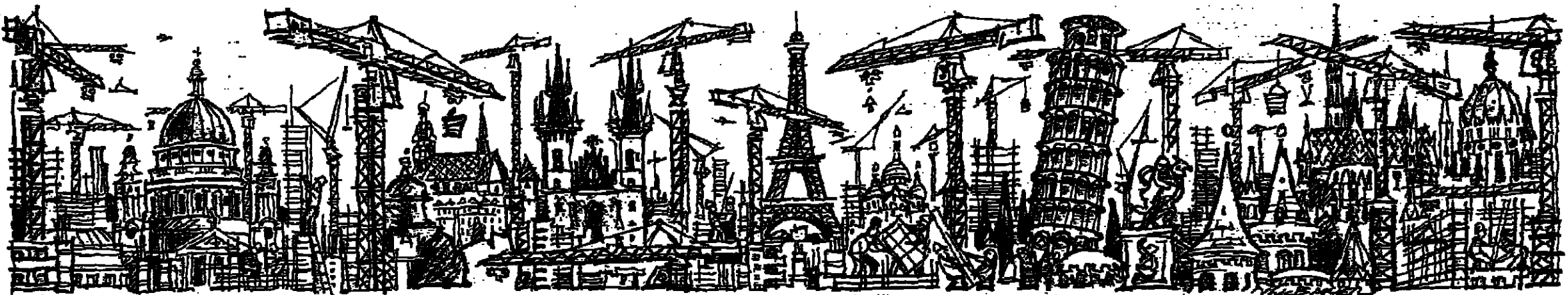
"Sustained pressure on estimates implies no quick rebound in markets but recession in the western economies is nevertheless not on the agenda. With bond/equity valuations hitting historic extremes in favour of equities, we would suggest that equities are now near a base and increasingly represent reasonable long-term value."



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EUROPEAN CONSTRUCTION INDUSTRY

FINANCIAL TIMES SURVEY



Growth in the industry tends to lag behind the economy by one to two years, says Jonathan Guthrie

Cranes fail to tell whole story

On arriving in a foreign city you can get a rough idea of the state of the local economy simply by counting the cranes on the skyline.

So the traveller entering Dublin by taxi will conclude that Ireland must be booming, judging simply by the array of cranes rearing up on either side of the Liffey.

Crane counting works because construction is highly visible, represents a big chunk of total expenditure in any economy - typically about 10 per cent - and is strongly dependent on growth in the general economy to grow itself.

But while some businesses, such as retailing, are at the leading edge of the cycle and are thus closely watched as indicators of growth, construction tends to lag behind the economy by one to two years.

Our traveller may therefore see more cranes raising their jibs over European cities over the next year or so following a recovery in the continental European economy during 1997.

This came after a marked

slowdown that began with the recession of the early 1990s and was prolonged into 1995 and 1996 as EU states struggled to achieve the economic convergence targets required to participate in the first wave of monetary union.

Continental construction bosses hope the introduction of the euro will give economies greater stability, softening the boom-to-bust cycles that have been a feature of recent decades.

Europe's construction industry forecast, an industry forecasting body, predicts that European construction output will rise at 2.3 per cent during 1999 - very modest progress by the standards of high-growth businesses such as computing, but must be set against declines of 2.9 and 0.4 per cent in 1993 and 1996 respectively.

Since 1996 the industry has been on the mend with growth estimated at 0.7 per cent in 1997 and 1.6 per cent in 1998.

Jacques Cannon, a director of Construction Forecasting Research, a specialist consultancy, says: "The outlook is

positive, with unemployment moving down and interest rates low."

"But what we will not have is a real boom, as there was at the end of the 1990s."

It is as yet not clear how much of a dampening effect will result from financial turmoil in East Asia and Russia.

Three international banks recently downgraded their growth forecasts for the 11 states that will introduce the euro next year. Construction share prices in the UK are discounting a plunge in profits.

Even before the re-rating of Germany, the biggest motor of European construction, was set to enter 1999 idling. With output exceeding Ecu200bn, more than twice that of nearest rival France, Germany is the last of the European Big Five to stage a recovery. Output is forecast to grow at just 0.8 per cent following declines of 3.1, 2.2 and 0.9 per cent in the previous three years.

Germany has been hit by a series of problems which have included a sharp recession

Total construction output

Est in 1997 prices	1995	96	97	98F	99F
Austria	31,043	31,812	32,555	32,874	33,533
Belgium	24,888	24,723	25,761	26,232	27,728
Denmark	14,885	16,053	16,330	17,257	17,615
Finland	8,867	10,054	11,116	12,366	13,259
France	107,725	97,851	95,045	96,552	100,295
Germany	211,463	204,500	200,401	198,556	200,185
Ireland	7,762	8,120	10,324	11,104	11,822
Italy	36,222	36,061	36,061	36,553	36,553
Netherlands	32,006	32,582	33,515	34,730	35,497
Norway	12,023	12,030	12,030	12,030	12,030
Portugal	10,730	11,191	12,030	12,030	12,030
Spain	53,462	52,888	53,131	53,082	52,764
Sweden	21,325	21,391	20,701	21,080	22,386
Switzerland	23,591	23,571	23,571	23,571	23,571
UK	12,823	12,823	12,823	12,823	12,823
Total	791,576	726,303	733,729	745,685	763,714

in the East, tight curbs on public spending ahead of monetary unification - belied by the forests of cranes sprouting over Berlin as it resumes its mantle as the capital - and the heavy costs of integrating the two halves of the country following the fall of the Berlin Wall.

The industry has also had to grapple with what Klaus Stadler, head of economics at Philipp Holzmann, a big German construction company, describes as "huge overcapacity, where companies have been taking on orders at a loss just to keep volumes up and where one per cent is regarded as a high margin on a contract".

The result is that, even as Germany begins to benefit from an upturn, marginal participants are expected to continue going out of business. The problem that faces most construction companies in Germany, as in the rest of Europe, is a structural one which merely becomes more apparent in a slowdown.

In an industry where entry costs are low, competition for contracts ensures that margins are wafer thin. In the United Kingdom there has been a move to overcome this through "partnering".

This is new kind of contracting relationship in which clients, builders, architects and engineers work closely on a series of projects sharing knowledge and cost savings. Contractors specialising in this kind of work boast margins of up to 5 per cent.

A government-backed committee led by John Egan, chief executive of BAA, the airports and retailing group, threw its weight behind partnering this year.

However, critics are sceptical whether the approach will benefit clients and contractors engaging in one-off projects. Moreover, clients with repeat business seem likely to be the ultimate beneficiaries of cost savings, leaving contractors struggling to make ends meet on

the lowest of margins.

According to a survey by the contractors Ballast Neuhof, while European construction companies are aware of the value of partnering, most remain trapped in relationships where they win or lose contracts on price.

In the UK, where output growth is forecast to drop to 2.5 per cent in 1998 from a peak of 3.5 per cent this year, construction companies have been diversifying into businesses offering higher margins than general contracting.

Key areas are facilities management and road and rail maintenance, where a substantially privatised transport system has provided opportunities which participants hope will increasingly become available on the continent.

Public-private partnerships are expected to be an important feature of Spanish construction, which is forecast to enjoy growth of 4 per cent to the end of 1998, levelling off to 3 per cent next year.

Volumes will be buoyed by increased public spending, fuelled in turn by tax receipts from a strongly growing economy. Housebuilding has already taken off.

Higher spending on infrastructure will also benefit France, where construction output is forecast to grow at 2.4 per cent in 1998 following a long period of stagnation. However, the UK is alone in spending heavily on millennium-related projects such as the Dome.

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AWARDS • by Jonathan Guthrie

Fit for a king

Restoration of Windsor Castle earns building manager a top distinction

In a mature construction market restoration and refurbishment should, in theory, form a growing part of contractors' business. The job undertaken by this year's building manager of the restoration of Windsor Castle following a disastrous fire in November, 1992. The client was the Royal Household's director of property services.

Quality was of prime importance in such a high profile job. Many control samples and full size mock-ups were needed. The work was also highly specialised, with 240 different firms involved in fitting out damaged areas. The project manager needed detailed knowledge of the many trades involved to keep the work on schedule.

Mr Rowley, 43, says: "The challenging part of the job was understanding all the individual parts of which it was composed. There was no repetition, and nothing was square in structure."

The Chartered Institute of Building said that despite its small size - £28m - the project was an excellent example of the best skills and management techniques.

The judges said: "The quality of the finished work in all the public areas, and the overall effect, are absolutely stunning. It is remarkable that this work has been completed within the budget and to a shortened programme."

Mr Rowley also won a gold award in one of three award categories defined by size of project: below £5m, £5m-£17m, and above £17m.

While Mr Rowley triumphed in the last category, it was Peter Adams of HBG Construction who scooped the first. Mr Adams was the project manager of the £28m

redevelopment at Station Road in Reading. This involved building two pubs and refurbishing offices and a shopping arcade.

Work on the arcade created disruption for both shoppers and traders. Mr Adams took on a diplomatic role, visiting each shopkeeper to keep them informed on progress.

Jason Millett, of Bovis Construction, project manager of the £1.6m Forster Square commercial and retail development in Bradford, was the gold winner in the £3m-£17m category. The project was influenced by a social partnership agreement between Bovis and Bradford City Council. Mr Millett hired almost half his labour force from within a six-mile radius, increased the number of apprentices and took on students under the Bovis undergraduate scheme.

Contact with the community was also important for Tony Adams, of Wimpey Homes North East. He won Housing Constructor of the Year in the inaugural year of the award. Charged with building 48 detached homes on a green field site, he visited schools to explain to children the dangers of playing on the site. He kept stock levels low to reduce vandalism and theft.

The judges said: "Tony was in control of all aspects of management and it was refreshing to see that assurances were given to personnel and house purchasers that the site would be kept clean and free from hazards."

Grant Gellatly, of Amey Construction, was IT Business Manager of the year. He was responsible for choosing and overseeing the installation of a new information management system for 200 staff at M&V, a joint venture between Amey, Sir Robert McAlpine, Taylor Woodrow and Barr building 28km of road between Central Scotland and the South.

The awards were sponsored by British Telecom, Asta, Powerpoint and CIOB Financial Services Direct in association with the Financial Times and Construction Manager magazine.

As the mounting supply of new office space in Warsaw at least begins to depress office rents which have been at near to Paris and London levels so the construction industry will shift its focus to infrastructure as well as more retail and warehousing projects. Higher standards required by the European Union which Poland is now negotiating to join will mean more work on environmental infrastructure.

But, at the same time as the economy moves away from manufacturing to services, refurbishment of old industrial plants for use as offices will continue.

Already swathes of industrial capacity in Warsaw, once the pride of Poland's socialist masters, now house banks and insurance groups. The Globe Trade Centre, the developers of Warsaw's Mokotow Business Park, are spending \$200m on turning the old Comi plant into an 180,000 sq m office complex.

In a sign of confidence in the future the individual buildings are being named after the planets and stars.

Chris Bobinski

CROSS-BORDER DEALS • by Jonathan Guthrie

Wider horizons and mixed results

Obtaining a foreign foothold by acquisition can prove a risky business

Entry costs at the bottom end of the construction business are low. All it takes is a hired cement mixer, some workers - usually employed on a casual basis - and a few pallets of bricks.

Capital is not a problem, since a loan can be raised on the security of future payments from the client that has awarded a contract.

The only real assets required are building expertise of a kind which is never in short supply, good local contacts and quick wits.

Nor does size necessarily unlock the economies of scale that give larger con-

cerns a conclusive advantage in sectors such as manufacturing and retailing.

The result is that construction remains a highly fragmented business in which big companies are fighting a continual turf battle with smaller rivals able to whip business from under their noses by shaving a few pounds, marks or francs off the cost of erecting a building.

In Europe, construction companies have for the most part remained trapped in their local markets for reasons of culture, language and national differences in building specifications. This has impeded attempts by the more adventurous to win business elsewhere.

An apparent solution is to gain a foreign foothold through acquisitions. However this is a risky business.

The real assets being bought are negligible, published accounts may provide few clues to future profitability and the market accessed will be unfamiliar and, most probably, fiercely cyclical.

The latter drawback became painfully apparent to Mowlem. The British builder, bought into East German construction just ahead of a bruising downturn earlier this decade, suffered serious losses, and following its withdrawal sees more scope for profits in home repairs and environmental services at home than in a brave new unified Europe.

However, the experience of cross-border acquirers has not been uniformly disappointing. Amec, another UK builder, bought a 42 per cent stake in Spie Batignolles, the French contractor specialising in electrical work, for £20m in February last year.

Spie has thrived despite the depressed state of French construction and contributed a welcome £5.6m to Amec's pre-tax profits of £22.6m in the first half of this year.

This was a period during which Amec's core building and civil engineering business made a loss of £1.1m on turnover of £577m.

Peter Mason, chief executive of Amec, says: "We bought the stake because we wanted to be in the forefront of European consolidation, rather than at the back end. Spie is very strong in capital rail projects, while Amec has a rail maintenance unit."

Amec's entry into cross-border investment followed the failure of a £360m hostile bid by Kvaerner, the Norwegian building, engineering and shipbuilding group, which retains a 26 per cent stake in the UK concern. Amec has an option to acquire the rest of Spie's shares in four years which it expects to exercise.

Skanska, the Swedish construction company, acquired a 7.6 per cent stake in Costain, the UK company, as a part of a restructuring of the troubled business last year.

Skanska has an option to raise its stake to 40 per cent in three years. Close collaboration between the groups suggests this will be exercised.

Hochtief of Germany has been tipped as a bidder for Bovis Construction, the building division of P&O, which is valued at up to £250m. Hochtief strenuously denies this.

In 1997 the group suffered the disappointment of a failed bid for a larger, underperforming rival, Philipp Holzmann, which became mired in anti-trust complications.

As a result Hochtief has cut its stake in Holzmann from 35 to below 20 per cent and is pursuing links with other partners.

A proposed merger at the top end of the Spanish construction market came to grief earlier this year. Banco Central Hispano, the banking group, tried to buy a 26 per cent stake in Fomento de Construcciones y Contratas, a big conglomerate with construction as its core business.

The purchase was seen as a prelude to the combination of FCC with Dragados, a builder in which BCI has a large shareholding.

In the event the shares, put on the market by Alicia

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Koplowitz, daughter of the founder, were bought by her sister Esther, herself a 26 per cent stakeholder. Esther, who is closely involved in the running of FCC wants to sell on the stake - though not, apparently, to BCI.

Both FCC and Dragados are seeking new partners as they unwind their collaborations, and neither is excluding an international link.

Unusually within Europe, Spain has seen considerable consolidation in its highly fragmented construction market over the past three years, with a rash of mergers involving smaller to medium-sized businesses.

Pedro González-Habba, director of the trade body

Seopan, says the trend has received strong encouragement from a government eager for partners with the scale and financial muscle to participate in public-private infrastructure projects.

Infrastructure projects in a Europe spending heavily on improving transport links between countries can be too big for even large national operators to tackle alone.

According to some commentators, these groupings could be the bedrock on which genuine cross-border consolidation across the community will be based. If so, Amec and Spie are well ahead of the game.

run out of money and accessible mortgage schemes will have to be put into place to keep the sector going," he says. Warbud is 70 per cent owned by Campeon Bernage and SOGEL of France, but this dominant share is likely to be diluted when Warbud is floated on the Warsaw bourse early next year.

Warbud, which had contracts worth 160m zlotys under construction last year compared with 60m in 1996, is concentrating on office building projects at present. But it is also developing capacity for building roads and bridges as its next field of activity.

"Four-fifths of Poland's bridges need to be refurbished," says Mr Samborski, implying that even if the country's long-awaited pay motorway building programme is delayed, there will be enough renovation work to do.

This is the approach adopted by Ray Elliot, of Taywood Engineering, who is seeking to put techniques designed to arrest corrosion developed by Taylor Woodrow to work on Poland's road bridges. Taywood has already conducted European Union-funded research on the problem and is working with Poland's road and bridge construction institute to develop the market.

In contrast to this cautious approach adopted by British companies, foreign investors such as Hochtief and Biffinger and Berger from Germany already own

controlling stakes in local companies. Skanska, of Sweden, which has a good record in office building in Warsaw, and Austria's Iba, which took advantage of Austrian government credit guarantees to enter the Polish market, were earlier entrants.

As the mounting supply of new office space in Warsaw at least begins to depress office rents which have been at near to Paris and London levels so the construction industry will shift its focus to infrastructure as well as more retail and warehousing projects. Higher standards required by the European Union which Poland is now negotiating to join will mean more work on environmental infrastructure.

But, at the same time as the economy moves away from manufacturing to services, refurbishment of old industrial plants for use as offices will continue.

Already swathes of industrial capacity in Warsaw, once the pride of Poland's socialist masters, now house banks and insurance groups. The Globe Trade Centre, the developers of Warsaw's Mokotow Business Park, are spending \$200m on turning the old Comi plant into an 180,000 sq m office complex.

In a sign of confidence in the future the individual buildings are being named after the planets and stars.

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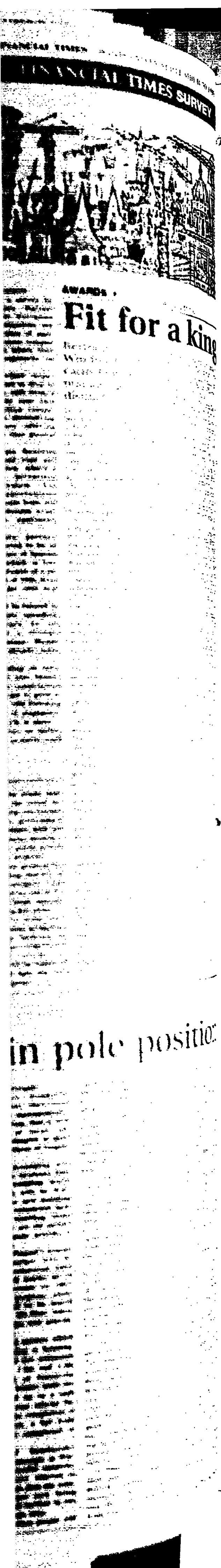
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INFRASTRUCTURE • by Charles Batchelor

PRIVATISATION • by Nicholas Timmins

Opening road to Building on a more solid base

The EU is trying to knit together the transport networks of member states

European governments face a considerable challenge to upgrade their transport networks.

In the European Union the main task is to knit together previously separate national networks while in eastern and central Europe decades of neglect under Communism must be put right.

In western Europe the main road network has had to cope with an inexorable rise in traffic volumes while in the east increased disposable incomes have led to a sudden sharp rise in car ownership.

On the railways the problem has not been solely one of capacity because both eastern and western Europe have extensive networks. An equal challenge in the west has been to persuade hide-bound national railway administrations to adapt to the demands of cross-border freight and passenger traffic.

In the east the railways must counter a sudden loss of business as hauliers shift to the roads and people acquire cars.

The inevitable problem confronting governments and transport planners has been a shortage of finance. The European Union has provided funds to kick-start its two main programmes, the Trans European Networks (TENs) initiative in the west and its Corridors programme in eastern Europe.

But large sums are still required from governments and from the private sector. Slow progress on several projects included in the original TENs programme in 1994 has prompted EU studies into public-private partnerships.

The European Commission has produced a set of recommendations including the need to involve the private sector at an early stage in project development, to remove bureaucratic barriers to the creation of ad hoc companies to manage projects, and to develop new, or apply existing, financial instru-

ments to fund schemes.

Nevertheless, progress has been made in finding public-private solutions to schemes which failed to go ahead purely in the public sector.

The Greek government made two unsuccessful attempts to build a replacement for the cramped Athens international airport in the 1990s. Spata airport, a 20.5km project, is now being built by a company in which private partners, led by Hochtief, the German construction group, have a 45 per cent holding. The Greek government has the rest and has provided a guarantee for a European Investment Bank loan.

When the 30-year concession to operate the airport ends, ownership reverts to the government.

Athens airport forms part of the TENs initiative, though it is not one of the 14 high priority projects. These include the Oresund fixed road and rail link between Denmark and Sweden, the UK's main west coast rail line and the Lisbon-Valladolid motorway linking Portugal and Spain.

High-priority TENs schemes are expected to cost Ecu5bn (Ecu5bn) with up to 10 per cent available from the EU in the form of viability studies, loan funds from the EU and cohesion fund money for Greece, Ireland, Portugal and Spain.

Three of the schemes - a rail link from Cork to Larnaca, the Oresund link and Malpensa airport in Milan - are nearly complete while funding has been arranged and work begun on six others. These include the UK west coast line, a network of Greek motorways to the Bulgarian and Turkish borders and the Betuwe rail freight line in the Netherlands.

But finance for five other projects, including two rail lines requiring Alpine tunnels, remains uncertain. In part this reflects an overall shortage of funds but it is also a result of unrealistic forecasts of their complexity and the time required.

The commission has proposed doubling the EU contribution to Ecu5bn for the next phase.

Undeterred by the slow progress of some of the TENs projects, the EU is working on plans for an

equally ambitious project in eastern Europe involving the creation of 10 key transport corridors.

These would provide upgraded road, rail and waterborne links from the Baltic states to the Aegean and from the Polish-German border to Moscow.

Corridor 1 involves a 1,000 km road and rail route from Helsinki to Warsaw with a branch from Riga to Danzig. Bypasses will be built around several towns while the railway crossing on the Polish-Lithuanian border will be upgraded.

The cost of construction in eastern Europe is usually lower than in the west but the relatively low incomes mean it is difficult to charge very much for using motorways or trains.

This places a heavier burden on public sources of finance and means governments may have to provide two-thirds of the total funding requirement of up to Ecu50bn.

The private finance initiative is providing a boost to the UK industry

The UK construction industry is enjoying a good year with profits, largely, on the increase.

The private finance initiative (PFI), a small but growing part of most contractors' portfolios, has begun to develop a flow of projects.

Since Labour took power in May, 1997, about £4bn of deals, many involving construction, have been signed. Treasury ministers argue that, leaving aside the resuscitated Channel Tunnel rail link, this figure matches the amount delivered by the Conservatives in the previous five years.

Nevertheless, a number of contractors has gone into receivership and the outlook is less rosy for many, with business starting to slow. As economists debate whether the UK will undergo a hard or soft landing during any recession, contractors are trying to assess the impact of the Asian crisis.

The shape of the industry is also changing, driven in part by the private finance initiative, which is altering traditional relationships between the public and private sector. This, in turn, is driving changes between construction companies and their private clients.

Two themes are evident. One is an increasing Europeanisation of the industry as UK contractors form links with big mainland European contractors.

The other is the slow but steady expansion of building companies into facilities management - changing the industry from one which built and walked away, to one which has a much longer-term stake in the projects it builds.

Jeanne Price, of the Major Contractors Group, argues that the Europeanisation of the industry can be overstated. Plenty of big UK builders remain and much construction still requires contractors who understand the local market. She believes it is unlikely the industry will be dominated at the top end by a few international companies. But relatively recent link-

ups include HBG acquiring Riggs & Hill's construction division, the Norwegian-based Kvaerner taking over Trafalgar House and Trollope & Colls and acquiring a stake in Amec, Skanska's stake in Costain, Ballast Neamham's takeover of Wiltshire and Amec's 42 per cent stake in the French electrical contractor and civil engineer, Spie-Batignolles.

The need for size in order to handle big contracts has, in part, driven that. But so has the private finance initiative in which construction companies, usually in links with facilities managers, banks and a range of other companies which vary by project, join together to design, finance, build and operate anything from a road or bridge to the Channel tunnel rail link.

After years of steady shrinkage in public sector capital spending, the revival of publicly-sponsored but privately-financed projects, underwritten by local or central government payments over 25 or 30 years, has attracted European interest.

Nigel Shilton, of Arthur Andersen Real Estate Consulting, says: "While PFI is certainly not the only reason that foreign contractors are seeking a foothold in the UK, it cannot be denied that it has provided the catalyst for the foreign contractors were looking for."

Kvaerner, for example, recently won the contract to rebuild Greenwich Hospital; the Dutch-owned Ballast Neamham won the first big schools contract in Falkirk and the King's-Guy's-St Thomas medical school went to Bouygues, of France.

At the same time growing numbers of the big UK contractors are building up their facilities management arms to take a long-term stake in PFI projects. The key change is that the old separations between constructing and providing services are disappearing as the public sector looks to PFI projects to provide a service over a period of decades.

Among the more dramatic examples is Jarvis, which is rapidly becoming as much a facilities manager as a contractor, having won the bid for the first privately financed school building in

the UK. The company followed that with a string of student accommodation projects in higher education.

John Laing has joined with the multi-utility Hyder to put all of their accommodation-related projects into a specialist PFI company.

The key to making these projects work is recognising that the purchasers and suppliers are locked into a partnership. Sir Martin Laing, chairman of John Laing, recently argued that to thrive the construction industry needed to reflect interdependence in a much more partnership-based relationship with clients.

For too long, he says, the industry has relied on fixed price contracts with thin margins and an adversarial relationship with clients.

The way PFI deals are structured pressures public sector clients to be clear about the outcomes they want from their contracts - in other words the service - and not change designs or requirements part way through. It equally applies pressure to the contractor to build for a lifetime, and deliver on time and budget in order to get paid.

COMMERCIAL PROPERTY • by David Lawson

Watchword is caution

Developers in Europe are now matching the supply to each individual market

This was the year when real estate markets were set to boom across Europe as economic growth and the anticipated strength of a single currency kicked in. But property is no longer a boom and bust sector.

Investors nursing recession-burnt fingers now show far more caution in commissioning buildings before they have found an occupier. Developers are doing what they should always have done - matching supply to each individual market.

That means tower cranes have risen over office centres like London, Paris and Brussels while elsewhere they have remained absent according to property consultant Knight Frank.

The UK is the furthest into the development cycle. Central London has seen office

construction rise above 8m sq ft, which is beginning to worry some observers fearing the impact of Asia, Russia and Latin America on the financial markets.

Property consultant CB Hillier Parker is sanguine, pointing out that supply is well below boom levels. Most new space is pre-let and demand far exceeds output.

Canary Wharf's owners are convinced enough to commission another giant office block every time one is let. Renovation could play a bigger role in future, however, as a flood of older space is released.

Paris is almost a mirror image of London. The strong French economy, tax reforms, low interest rates and an influx of US investors have fuelled a surge of building and renovation, says Jones Lang Wootton.

Goldman Sachs, for instance, paid Credit Lyonnais a reported Fr500m and will spend another Fr500m developing 13,000sq metres on one central site. La Defense will carry out both

new building and renovation after investment deals in the past year.

Other hot spots reflect similar local shortages rather than macroeconomic cycles. Prague is seeing a rash of developments driven by private overseas investors and a take-up which doubled in the first half of this year.

Brussels has responded to falling vacancy rates with a spate of speculative developments, says consultant Healey & Baker. Madrid is more circumspect, with developers ready to exploit supply shortages but not to start without pre-lets.

Amsterdam is in the same position, although planning regulations rather than lack of confidence keep builders off site until offices are let.

Regulation has also been a crucial factor in retailing, with governments taking fright in most countries at the proliferation of regional malls. Schemes near Manchester and at the London end of the Eurotunnel rail link are unlikely to be repeated elsewhere.

France has also tightened planning restrictions, but JLL points out that almost 600,000 sq m of development squeezed through the system last year.

Central Europe is on the upward slope, benefitting from the release from restrictive political regimes.

The Czech economy is only just recovering from last year's crisis and may yet face economic fall-out from Russia, but foreign retailers

and investors are scrambling to build a string of centres based around hypermarkets.

Hungary is seeing similar pressure, with retailing and leisure - particularly multiplex cinemas - crowding into an enthusiastic new market.

Less developed economies of western Europe such as Spain, Portugal and Ireland are also feeling the effect.

Jeremy Lewis, head of the Schroder Europe property fund, saw a gap in northern Italy, a rich region poorly served by retailers. Now he is watching income soar from five shopping centres bought early in the cycle.

But he is sceptical about any rise in the tempo of development towards levels of the turn of the decade.

David Simons, of Slough Estates, one of Europe's biggest developer investors, agrees that these hot spots have not ignited a surge of

activity across the continent.

"Building prices are not rising, and that is a sure sign that activity is restrained," he says.

Neither is too concerned, as restricted development helps to maintain investment values.

JLL sees most European markets on an up-cycle. They are attractive to US investors, particularly the cash-rich real estate investment trusts.

They are also following the bidding of large customers seeking new premises inside the single European market.

Security Capital, for instance, has paid millions of dollars for small UK companies such as Akeler and Kingspark with instructions to scour Europe for sites.

The crucial factor for growth, however, is how economic problems elsewhere affect recovery.

ENVIRONMENT • by Vanessa Houlder

Unexpected opportunities

Opportunities exist in cleaning up the east but firms are discriminating

Improving the environment of eastern Europe is a slow and expensive process. But it may offer significant opportunities for construction companies - as long as they have capital, a selective approach and resilience in the face of the region's economic uncertainties.

In the early years of eastern Europe's transition to a market economy, the environment appeared to be one of the clearest beneficiaries. The closure of old, inefficient factories and power plants sharply reduced the levels of many pollutants by as much as 40 per cent.

But those early gains provide little ground for complacency. Ill health caused by air pollution is rising in the former Soviet Union, although it is falling in central and eastern Europe.

In countries where economic growth has resumed, increasing use of cars has brought new environmental pressures. Moreover, hope of accession to the European Union has created a need to meet EU regulations.

Areas which need most attention are:

• Waste management. Shifts to western-style consumption are intensifying the already severe pressure on municipal waste management capacity. The European Environment Agency, an EU organisation, argues that priorities include improving municipal waste management through better separation of wastes and better landfill management, the introduction of recycling initiatives at local level and carrying out low-cost mitigation and containment at priority disposal sites.

• Contaminated sites. More than 300,000 potentially contaminated sites have been identified in western Europe and the estimated total in the east is much greater. Soil contamination around abandoned military bases poses the most serious risk. Many countries have yet to develop the regulatory and financial framework needed for solving the problem.

• Pollution control. Charges and stricter environmental regulations will direct private investment towards more efficient and less polluting technology. This will, however, take around 20 years because the countries of central and eastern Europe cannot afford to replace capital stock in a shorter period.

• Water. Use is more wasteful in central and eastern than in western Europe, partly because it is under-priced, and in a number of countries it is frequently in

short supply. Standards of treatment for drinking water also tend to be lower than in western Europe. If inadequate supply and patchy treatment persist, increasing amounts of investment may be required to ensure the availability of acceptable drinking water.

Many large enterprises once pre-treated the wastewater they discharged. Now, as these organisations are split up and privatised, there is a risk that increasing amounts of industrial discharges, such as heavy metals and chemicals, will flow directly into municipal sewers not equipped to handle them.

Just part of this business would amount to significant work for the construction industry. A report for Europe's environment ministers published in June estimated the 10 countries waiting to join the union need to spend about Ecu120bn to comply with EU directives.

Funding environmental improvements on this scale is clearly impractical. Taxes and fines from national polluters account for 20 per cent of environmental spending in several central and eastern European countries.

Western financial support for environmental investments in eastern Europe has actually declined since 1994.



Environmental loans from international financial institutions to central and eastern European countries fell sharply.

Even so, investing alongside funds provided by the EU or other western institutions is the way forward, says Alastair Fulton of Environment Resources Management, a consultancy. "What is driving environmental construction forward are structural funds and cohesion funds," he says.

Construction companies are tending to prosper in countries where they have historic links, he adds, although companies mostly try to reach partnership agreements with local companies. Scandinavian and German companies are particularly well placed.

But, although foreign direct investment in environmental projects has grown rapidly in recent years, companies are highly selective about where they invest. Nearly three-quarters of all investment has gone to just five countries - the Czech Republic, Hungary, Kazakhstan, Poland and Russia.


Foreign companies are likely to become more, not less, discriminating. If the economic problems affecting the region continue, the shortlist of countries targeted by western companies for environmental improvements may get even shorter.

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INTERNATIONAL CAPITAL MARKETS

Long bond jumps after Fed easing

GOVERNMENT BONDS

By John Labette in New York
and Kenneth Merchant
in London

US Treasuries were mixed soon after the Federal Open Market Committee's decision to lower the Federal Funds rate by 25 basis points to 5.25 per cent. The 30-year bond, the benchmark for long-term interest rates, jumped 1/8 to 105 1/8, sending the yield down to 5.12 per cent.

Shorter-term notes did not do as well. The 10-year note was unchanged at 107 1/8, yielding 4.86 per cent. The two-year note was down 1/8 to 100 1/8, yielding 4.45 per cent.

The fall in the Fed funds rate was widely expected in the stock and bond markets, coming after Federal Reserve chairman Alan Greenspan's testimony to Congress last week. Many in the market, however, had expected a more aggressive move. "The general assumption is that the next move will come at the November

meeting," said Kevin Logan, senior market economist at Dresdner, Kleinwort Benson in New York.

The cut was seen as important in stabilising global investment and helping overseas economies. While the US economy remains strong, recent cuts in credit availability, as well as problems at large financial institutions, are seen as a threat to future growth.

consolidate the DSL market into a limited number of benchmark bonds in the run-up to European monetary union.

Four short-dated issues redeemable between January 15 and August 1 2000, and one issue redeemable on January 15 2007, will be eliminated and holders will be given longer-dated paper by reopening the existing January 15 2028 bond issue.

GERMAN BONDS closed slightly higher awaiting news from the US. German interest rates will come under the spotlight tomorrow when the Bundesbank council meets, but a hint that it would not adjust German rates came when Jürgen Stark, a vice-president, said there was no justification for a relaxation of monetary policy in core euro zone countries.

The December bond future settled at 113.73, up 0.12, with just 247,000 contracts changing hands in quiet trading on Eurex. In the cash market, the yield on the 10-year bond was 3.95 per cent.

UK GILTS, extremely sensitive to sentiment on interest rates ahead of next week's meeting of the Bank of England's monetary policy committee, fell in quiet

trading while sterling strengthened. The catalyst for both was evidence of continued robust consumer spending, which weakens the case for a cut in rates.

The figures showed consumers borrowed an additional £1.4bn in August, higher than most observers had expected.

Neil Parker, treasury economist at Royal Bank of Scotland, said the data "may add some ammunition to the hawk's case for leaving rates on hold" at next week's meeting.

"Consumers are clearly financing consumption with debt, which raises questions about the timeliness for interest rate cuts," said Joanne Collins at Daiwa Europe.

The December gilt future settled at 113.38, down 0.18, on turnover of 46,000 contracts on Life. In the cash market, the yield on benchmark 10-year gilts was 4.97 per cent, with the yield spread between gilts and bonds widening to 105 basis points.

Asset-backed formula key to success for Ecclestone

The entrepreneur's Formula One bond is a first for securitisation

By Patrick Harrison and Vincent Boland

Such is Bernie Ecclestone's reputation as an entrepreneur, that when his Formula One company announced plans for a \$2bn Eurobond issue on Monday it was difficult to believe the money would not be going into new sporting ventures outside motor racing.

Instead, Formula One has said the money will go into the Ecclestone family trust. In spite of this assertion there has been plenty of speculation about what Mr Ecclestone might do with the funds. Several reports suggested the money was a war chest to help him back the Formula One team.

However, while Mr Ecclestone has had some limited contact with the company in recent months, its representatives have played down talk of the racing promoter becoming heavily involved in the project, either as a financial backer or a broadcasting partner.

Another suggestion was that Mr Ecclestone might use some of the money to buy a top football club.

This month his name was briefly linked to Manchester United, which has agreed a takeover by satellite broadcaster BSkyB, but the prospect of a 66-year-old businessman who has spent his entire life in motor racing wanting to become involved in football at this stage of his career seems unlikely.

Also, people who know Mr Ecclestone point out that he has recently become more involved in promoting other categories of motor racing, such as Le Mans-type GT cars and world champion-

Libor less 10 basis points, to yield 3.89 per cent to redemption. A banker at Paribas, joint lead with EFG Eurobank and National Bank of Greece, said the issue attracted broad demand.

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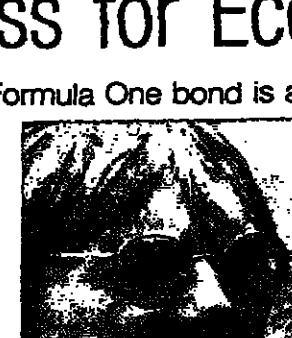
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US CORPORATE BONDS



Bernie Ecclestone: unique sale

with a sharp downturn in the international corporate bond market.

The Formula One bond issue is expected to be rated single-A, and evidence from recent weeks suggests investors want to buy only bonds rated AAA or AA, and there has been a notable drop in the issuance of bonds rated below that level.

However, bankers suggest securitisation issues such as the Formula One bonds, which are backed by the future revenues, have been relatively unaffected by the bond market turmoil because of the asset-backed structure involved in these transactions.

Bankers at Morgan Stanley Dean Witter, which put together the deal for Mr Ecclestone and has replaced Salomon Smith Barney as his main bank, said they were confident a tentative recovery in global corporate bond markets in recent days would allow the issue to succeed.

"They certainly have something unique to sell. This week syndicate members were hard pressed to come up with a comparable borrower to Formula One."

Its bonds are believed to be the first large issue to be backed by revenues from live sports broadcasting, and the deal's complex structure may put off some potential investors. However, if the company succeeds in raising its target of \$2bn it will create a benchmark issue that will be highly liquid.

Bankers said it was too early to indicate what price the bonds would be issued at, but one said: "I would expect it to trade at a fairly large premium to standard asset-backed securitisation deals because of the way it's being structured."

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Austria makes FF3bn offer

INTERNATIONAL BONDS

By Vincent Boland

The Republic of Austria issued FF3bn of seven-year bonds priced to yield 17 basis points over the French government bond curve in what Morgan Stanley Dean Witter, lead manager, said was an investor-led transaction.

The seven-year part of the OAT curve is the most expensive, with comparable OATs carrying high coupons and trading at substantial premiums. Some bankers said the 17-basis point spread would compare with 4 basis points over compar-

able German bonds, but there was demand for French franc exposure without the full OAT premium.

The issue attracted French as well as German, Italian and Benelux regional investors. "We had a substantial number of buyers going into the deal," a banker said.

THE REPUBLIC OF ITALY took the view that long-term bond yields would move upwards after European monetary union while short-term interest rates would fall. It launched a €200m issue of 50-year bonds targeted at mutual funds and insurance companies prepared to take that stance.

"We expect that after the euphoria of monetary union there will be a readjustment of long-term yields. This issue was aimed at those that believe long-term yields will rebound," said a banker

at Banca Commerciale Italiana in Milan, joint lead manager with Caboto and J.P. Morgan.

THE HELLENIC REPUBLIC priced its €500m issue of privatisation certificates at

New international bond issues

Borrower	Amount	Coupon	Price	Maturity	Yield	Spread	Book-runner
STERLING							
World Bank	750m	7.00	103.1418	Jun 2002	0.20R	+98(99)Dec28	ABN Amro
ESB	200m	6.00	106.038R	Dec 2008	0.45R		Goldman Sachs
FRANCE							
Republic of France	3bn	3.50	99.40	Oct 2005	0.30	+170	Morgan Stanley SA
FRANCE							
Royal Bank of Canada	150	4.00	100.05	Apr 2000	0.05		CSFB
AUSTRALIAN DOLLARS							
National Australia Bank	100	5.00	100.775	Oct 2001	1.275	+48(Nov01)	TD Securities
ITALY							
Council of Europe	100bn	3.00	99.30R	Oct 2015	2.00R		MS&W
EUROPEAN UNION							
Republic of Italy	500	3.00	98.00R	Oct 2003	0.60R		EFG Eurobank/Paribas
Republic of Italy	500	3.00	98.55R	Oct 2015	0.425R		BOI/Caboto/J.P. Morgan

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. 1 Floating-rate note. 2 Fixed rate note; fees shown at re-offer level. 3 Fungible with 750m. 4 Fungible with 100m. 5 100m. 6 100m. 7 100m. 8 100m. 9 100m. 10 100m. 11 100m. 12 100m. 13 100m. 14 100m. 15 100m. 16 100m. 17 100m. 18 100m. 19 100m. 20 100m. 21 100m. 22 100m. 23 100m. 24 100m. 25 100m. 26 100m. 27 100m. 28 100m. 29 100m. 30 100m. 31 100m. 32 100m. 33 100m. 34 100m. 35 100m. 36 100m. 37 100m. 38 100m. 39 100m. 40 100m. 41 100m. 42 100m. 43 100m. 44 100m. 45 100m. 46 100m. 47 100m. 48 100m. 49 100m. 50 100m. 51 100m. 52 100m. 53 100m. 54 100m. 55 100m. 56 100m. 57 100m. 58 100m. 59 100m. 60 100m. 61 100m. 62 100m. 63 100m. 64 100m. 65 100m. 66 100m. 67 100m. 68 100m. 69 100m. 70 100m. 71 100m. 72 100m. 73 100m. 74 100m. 75 100m. 76 100m. 77 100m. 78 100m. 79 100m. 80 100m. 81 100m. 82 100m. 83 100m. 84 100m. 85 100m. 86 100m. 87 100m. 88 100m. 89 100m. 90 100m. 91 100m. 92 100m. 93 100m. 94 100m. 95 100m. 96 100m. 97 100m. 98 100m. 99 100m. 100 100m. 101 100m. 102 100m. 103 100m. 104 100m. 105 100m. 106 100m. 107 100m. 108 100m. 109 100m. 110 100m. 111 100m. 112 100m. 113 100m. 114 100m. 115 100m. 116 100m. 117 100m. 118 100m. 119 100m. 120 100m. 121 100m. 122 100m. 123 100m. 124 100m. 125 100m. 126 100m. 127 100m. 128 100m. 129 100m. 130 100m. 131 100m. 132 100m. 133 100m. 134 100m. 135 100m. 136 100m. 137 100m. 138 100m. 139 100m. 140 100m. 141 100m. 142 100m. 143 100m. 144 100m. 145 100m. 146 100m. 147 100m. 148 100m. 149 100m. 150 100m. 151 100m. 152 100m. 153 100m. 154 100m. 155 100m. 156 100m. 157 100m. 158 100m. 159 100m. 160 100m. 161 100m. 162 100m. 163 100m. 164 100m. 165 100m. 166 100m. 167 100m. 168 100m. 169 100m. 170 100m. 171 100m. 172 100m. 173 100m. 174 100m. 175 100m. 176 100m. 177 100m. 178 100m. 179 100m. 180 100m. 181 100m. 182 100m. 183 100m. 184 100m. 185 100m. 186 100m. 187 100m. 188 100m. 189 100m. 190 100m. 191 100m. 192 100m. 193 100m. 194 100m. 195 100m. 196 100m. 197 100m. 198 100m. 199 100m. 200 100m. 201 100m. 202 100m. 203 100m. 204 100m. 205 100m. 206 100m. 207 100m. 208 100m. 209 100m. 210 100m. 211 100m. 212 100m. 213 100m. 214 100m. 215 100m. 216 100m. 217 100m. 218 100m. 219 100m. 220 100m. 221 100m. 222 100m. 223 100m. 224 100m. 225 100m. 226 100m. 227 100m. 228 100m. 229 100m. 230 100m. 231 100m. 232 100m. 233 100m. 234 100m. 235 100m. 236 100m. 237 100m. 238 100m. 239 100m. 240 100m. 241 100m. 242 100m. 243 100m. 244 100m. 245 100m. 246 100m. 247 100m. 248 100m. 249 100m. 250 100m. 251 100m. 252 100m. 253 100m. 254 100m. 255 100m. 256 100m. 257 100m. 258 100m. 259 100m. 260 100m. 261 100m. 262 100m. 263 100m. 264 100m. 265 100m. 266 100m. 267 100m. 268 100m. 269 100m. 270 100m. 271 100m. 272 100m. 273 100m. 274 100m. 275 100m. 276 100m. 277 100m. 278 100m. 279 100m. 280 100m. 281 100m. 282 100m. 283 100m. 284 100m. 285 100m. 286 100m. 287 100m. 288 100m

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Dollar volatile after Fed decision

MARKETS REPORT

By Richard Adams
and Andrew Balls

The US Federal Reserve's decision yesterday to make a small cut in the Fed Funds interest rate left the foreign exchange market disappointed.

The market had priced in a cut by as much as half of one percentage point, based on short-dated interest rate futures contracts. But the Fed's decision to cut the official rate by just 0.25 percentage points, and to leave the discount rate untouched, caused the dollar to gyrate wildly as traders weighed up the options.

In a statement, the central bank's open markets committee said: "The action was taken to cushion the effects on prospective economic growth in the United States, of increasing weakness in foreign economies, and of less accommodative finan-

cial conditions domestically." It was the first time the Fed had cut rates since January 1996.

Mary Chandler, foreign exchange analyst at Deutsche Bank Securities in New York, said: "In March 1997, when the Fed last raised rates, they said it was a cautious tap on the brake. This was a cautionary tap on the accelerator."

"This will not be enough to satisfy the markets. Many people think the Fed is falling behind the deflation curve."

But Avinash Persaud, head of currency research at J.P. Morgan in London, said the decision not to move the discount rate was a warning to the markets.

"It is very important that

the discount rate was not cut - that would have sent a signal that the Fed was erring on the side of further cuts to come," Mr Persaud said.

"The Fed is signalling that it is concerned about the international economy. But speculation has been subdued by keeping the discount rate unchanged."

"A 25 basis point cut was the most likely size of the move, given the US Fed is walking in uncertain territory, with the dichotomy between the international and domestic economy."

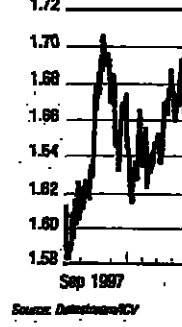
Earlier in London, trading had been very subdued as the market awaited the Fed's decision. The dollar had closed at DM1.678 against the D-Mark, little changed from the previous day. Against the yen it was Y24 weaker, at Y134.

■ **THE US MAY HAVE CUT**

interest rates. But this does not mean that investors

Sterling

Against the dollar (\$ per £)



Source: Bank of England

bank's vice-president, made clear that there was "no necessity to discuss" lower interest rates in Germany or the core countries of the euro-zone, before the FOMC met, indeed before the US was even awake. "At the moment in Europe we have historically low rates," he said. And that was the end of the matter.

■ **THERE IS MORE HOPE OF A** cut when the Bank of England's monetary policy committee decides on interest rates on October 5.

Following September's meeting, many analysts thought the MPC mirrored Chairman Greenspan's

■ **OTHER CURRENCIES**

There is more hope of a cut when the Bank of England's monetary policy committee decides on interest rates on October 5. Following September's meeting, many analysts thought the MPC mirrored Chairman Greenspan's

words that the balance of risks was moving away from domestically-generated inflation to disinflation imported from a turbulent international economy. The MPC kept interest rates on hold at 7.5 per cent last month. But it signalled that the next move would be down. Now the Fed has taken the plunge, lower UK rates cannot be far off.

■ **THE MOST LIKELY BENEFICIARY** of China's decision to reiterate foreign exchange holdings back into the renminbi is the beleaguered Hong Kong dollar. It followed the earlier announcement of foreign exchange controls.

While most analysts expect the direct consequences of the move to be small, it may allow the Chinese government to lower domestic interest rates. That would help domestic demand and ease the pressure on the Hong Kong economy.

POUND SPOT FORWARD AGAINST THE POUND

Month	Open	Settle	Change	High	Low	Settle	Open	Settle	Change	High	Low	Settle
1m	1.6780	1.6780	0.0000	1.6780	1.6780	1.6780	1.6780	1.6780	0.0000	1.6780	1.6780	1.6780
3m	1.6780	1.6780	0.0000	1.6780	1.6780	1.6780	1.6780	1.6780	0.0000	1.6780	1.6780	1.6780
6m	1.6780	1.6780	0.0000	1.6780	1.6780	1.6780	1.6780	1.6780	0.0000	1.6780	1.6780	1.6780
12m	1.6780	1.6780	0.0000	1.6780	1.6780	1.6780	1.6780	1.6780	0.0000	1.6780	1.6780	1.6780

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Month	Open	Settle	Change	High	Low	Settle	Open	Settle	Change	High	Low	Settle
1m	1.0000	1.0000	0.0000	1.0000	1.0000	1.0000	1.0000	1.0000	0.0000	1.0000	1.0000	1.0000
3m	1.0000	1.0000	0.0000	1.0000	1.0000	1.0000	1.0000	1.0000	0.0000	1.0000	1.0000	1.0000
6m	1.0000	1.0000	0.0000	1.0000	1.0000	1.0000	1.0000	1.0000	0.0000	1.0000	1.0000	1.0000
12m	1.0000	1.0000	0.0000	1.0000	1.0000	1.0000	1.0000	1.0000	0.0000	1.0000	1.0000	1.0000

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

EXCHANGE CROSS RATES											
Step	2p	10p	5p	2p	10p	5p	2p	10p	5p	2p	10p
Belgium	(Bfr)	10.0	18.43	10.25	2.847	1.536	4793	5.966	2.1	2.96	1.1
Denmark	(DKr)	54.28	10.0	8.18	16.01	1.051	2801	2.486	1.1	1.1	1.1
France	(Ffr)	61.23	11.34	10.0	2.982	1.191	2494	3.383	1.1	1.1	1.1
Germany	(DM)	20.53	20.53	10.0	1.93	1.000	1.000	1.000	1.1	1.1	1.1
Italy	(L)	51.64	9.518	8.383	2.983	1	2475	2.823	1.1	1.1	1.1
Netherlands	(Gld)	12.08	0.385	0.339	0.101	0.040	10.0	0.114	0.0	0.0	0.0
Sweden	(F)	2.836	3.372	2.974	0.887	0.545	3.00	8.718	1	1	1
Switzerland	(Sfr)	48.48	8.604	7.387	2.233	0.804	2237	2.382	1.1	1.1	1.1
United Kingdom	(Sterling)	2.48	3.70	3.279	1.000	0.746	1.000	1.000	1.1	1.1	1.1
Canada	(Cdn)	24.29	4.764	3.947	1.177	0.670	1.174	1.327	0.5	0.5	0.5
Japan	(Yen)	34.14	8.134	7.173	1.230	0.855	2115	2.412	0.9	0.9	0.9
South Korea	(Won)	24.90	5.588	4.046	1.207	0.629	1.199	1.351	0.5	0.5	0.5
Spain	(Ptas)	58.08	10.859	8.899	2.644	1.174	2529	1.1	1.1	1.1	1.1
South Africa	(Rand)	32.42	3.741	3.116	0.446	0.102	1125	1.258	0.4	0.4	0.4
USA	(Dollar)	34.02	6.281	5.827	1.678	0.559	1.682	1.7	1.1	1.1	1.1
Thailand	(Baht)	45.83	4.781	4.190	1.232	0.500	1.238	1.412	0.5	0.5	0.5
Malaysia	(Ringgit)	20.82	7.487	6.502	1.939	0.757	1.947	2.220	0.8	0.8	0.8

Brazil is crucial to prices, says GNI

By Paul Selman

Brazil's economic future is the key factor in the fortunes of world commodity prices, according to analysts at GNI, the international commodities broker.

The country's measures to tackle its trade deficit and the threat of a devaluation in the real will have a big impact on commodity prices, GNI said in its latest Commodity Perspectives report.

Brazil is Latin America's biggest economy and the ninth largest in the world.

It is the biggest grower of coffee, but also produces and exports substantial amounts of other commodities such as sugar, soybeans, cocoa, coarse grains, tin, aluminium, gold and tobacco.

"While Brazil's trade deficit would clearly be improved by devaluation, many of the current problems revolve around cyclical falls in commodity prices (soybeans, sugar and coffee)," GNI said. "Devaluation would therefore help the long-term expansion of these sectors, but would do little to boost volumes in the short term, and would probably tend to weaken international prices."

On coffee, GNI said the New York market had stalled, largely because of uncertainty over Brazil's 1999-2000 crop. "Should a lack of rain decimate output in the key growing state of Minas Gerais, then the global market would look distinctly positive," said GNI, adding that a slight fall in yield and a drop in consumption in developing nations could bring a big surplus.

Brazil is also crucial to cocoa price prospects. "Whether there is a devaluation or not, a recession is virtually assured, which means that consumption will suffer," said GNI.

India sets new season cotton export quota

By Kunal Bose

The Indian cotton season begins tomorrow, with as many as three estimates for the 1998-99 crop - ranging from a conservative 16m bales of 170 kg each to a record 18m bales.

In view of the possible bumper harvest, the federal government has set an export quota of 500,000 bales for the new season compared with exports of more than 400,000 bales in 1997-98.

It wants to make sure reports of a bumper crop do not cause any big fall in cotton prices when marketing the crop begins in November. In the event of a record

crop, it will release further cotton for export.

However, the Indian Cotton Mills Federation thinks fears of cotton prices collapsing because of a good harvest are not justified.

Deepak Parikh, chairman of the ICMF, said: "The decision to export before the start of the season is highly disturbing. We have pleaded with the government that export quotas should be set only after a proper assessment of supply and demand. We still do not have any precise information about the 1998-99 crop. What we know at this stage is that there is a bullwhip attack on the crop in five districts of Punjab."

Anil Jain, managing director of Indo Count Industries, a spinning company, says: "The cotton crop forecasting system in the country is so flawed that it is only at the end of the season that we come to know the exact volume of production. At the beginning of this year, we were told the crop would be 17.2m bales. After several estimate revisions, we know the 1997-98 crop is 15.32m bales, including 575,000 bales of loose cotton. This being the situation, the government should be cautious in releasing cotton for export."

The lowest in a decade. Therefore, we need a much bigger crop in 1998-99 for the textile industry to be able to sustain normal production.

"I am worried about the falling quality of Indian cotton. The government-constituted technology mission for cotton should focus on quality improvement and it should have the quality parameters of foreign cotton as a reference point."

The East India Cotton Association, the leading body of traders, expects the country to harvest a record 18m bales in 1998-99. The area under cotton is up by more than 200,000 hectares to 9.04m hectares.

There has been a fall of nearly 10 per cent in the land under cotton in the northern Indian states of Punjab and Haryana, but the farmers in Gujarat and Andhra Pradesh, the country's two largest cotton-producing states in the west and south, have more than compensated by expanding their cotton fields over much larger areas.

CA Galiakotwala, a large trading house, has conducted field surveys of the main cotton growing centres. It projects a crop of 17.35m bales for 1998-99.

In most areas, good rain and frequent warm, clear days have helped bring on

excellent growth of plants. Flowering nearly 15 per cent higher than normal has been seen in most fields.

However, agricultural experts say the final outcome will depend on what the weather is like until the end of October. The crop was damaged last year by rain in the winter months of November and December.

Industry officials say they are not able to take a view of future cotton prices in the absence of a "scientific crop forecasting system". They want India to follow the US way of monitoring the cotton crop, where more use is made of satellite systems and field surveys.

Farmers battle to dredge a living after the floods

Agriculture and industry have been badly hit by the weather in Bangladesh. David Chazan examines how the country is coping

As the flood waters recede in Bangladesh, the extent of the damage to the country's agriculture, industry and infrastructure is beginning to become apparent.

Farmers have been worst hit, with much of the rice crop and probably half of the next one wiped out. Jute has also been affected, and there will be some losses in garments exports, although economists say they may not be as big as feared by some manufacturers.

About 250 of the 2,000 garments workshops in Bangladesh closed for periods varying from a few days to two months, but most have reopened and are struggling to make up for lost time.

Congestion in the port of Chittagong caused by the closure of the flooded road to Dhaka, the capital, and continuing transport difficulties are slowing export shipments and fabric imports.

The government is negotiating a \$300m emergency loan with the International Monetary Fund and the World Bank. The government says the flooding has damaged nearly 10,000km of roads, and has estimated the probable cost at about \$300m. It has appealed for more than \$900m emergency and rehabilitation aid.

The response from donors to a separate United Nations appeal for more than \$200m, the most of it for emergency relief, has been fairly swift.

The government says more than \$170m has now been pledged. But the donors want more details about the government's plans for rehabilitation and reconstruction, although it is expected to take another week before a clearer picture emerges of the effects of the worst floods in Bangladesh in living memory.

But the lending institutions have made clear that they expect the government

to help finance the reconstruction. Lending institutions are expected to ask for greater accountability in the use of rehabilitation funds, as well as guarantees of efficiency in the implementation of programmes.

Some development funds pledged for Bangladesh before the floods have not yet been disbursed because of the government's past refusal to accept such conditions, and the World Bank recently informed the finance ministry it was strengthening its monitoring systems to prevent corruption and "leakage" of funds.

With 3.4m tonnes of crops damaged, the government has predicted a food shortfall of 4.3m tonnes this year, more than double the usual deficit of about 2m tonnes. It has announced plans to give farmers soft loans amounting to about \$700m, double the normal agricultural disbursement, but the lending institutions are not sure where the money will come from. They want the government to use its own funds rather than relying on the banking system, which has been severely weakened by the banks' failure to collect bad debt, with loans of \$30m in default - one-third of outstanding credit.



Flood of despair: A child takes goats on a banana raft in search of high ground in Rangpur. Reuters

Oil eases as US facilities restart

MARKETS REPORT
By Robert Corbin
and Paul Selman

Oil prices softened yesterday because of a combination of weak technical factors and a resumption of operations at some of the US oil facilities that had been shut down in advance of Hurricane Georges.

The benchmark Brent Blend futures contract for November delivery was quoted at \$14.31 in late trading on London's International Petroleum Exchange, down 4 cents on Monday's close.

Traders said the crude markets were also seeking a new direction from the latest weekly inventory data due to be published last night by the American Petroleum Institute.

Gold traded cautiously, yesterday, with the market lacking firm direction ahead of the outcome of the US Federal Open Market Committee meeting.

The precious metal has rallied in recent days on indications that the FOMC is likely to cut US interest rates.

The afternoon price "fix" in London was \$296 an ounce, slightly down on the morning's fix of \$296.85 but up on Monday afternoon's level of \$292.25. Later in Europe, gold was quoted at \$297.

Among base metals, only nickel showed any signs of movement in a quiet day on the London Metal Exchange. Nickel for delivery in three months closed at \$4,125 a tonne, up 85¢ on Monday's close.

On the London International Financial Futures and Options Exchange, robust coffee futures fell, the benchmark November contract closing down 23¢ at \$1,650 a tonne.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
Prices from Antwerp Metal Trading
All figures are in US dollars per tonne

Commodity	Unit	Price
Copper	3 months	1312-12.5
Aluminium	3 months	1312-12.5
Lead	3 months	1312-12.5
Zinc	3 months	1312-12.5

Commodity	Unit	Price
Gold	1000 grams	350-3.5
Silver	1000 grams	350-3.5
Platinum	1000 grams	350-3.5

Commodity	Unit	Price
Crude oil	1000 barrels	350-3.5
Heating oil	1000 barrels	350-3.5
Gasoline	1000 barrels	350-3.5

Commodity	Unit	Price
Wheat	1000 bushels	350-3.5
Corn	1000 bushels	350-3.5
Soybeans	1000 bushels	350-3.5

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Wheat	1000 bushels	350-3.5
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Wheat	1000 bushels	350-3.5
Corn	1000 bushels	350-3.5
Soybeans	1000 bushels	350-3.5

Precious Metals continued

ALL FIGURES IN US DOLLARS PER OUNCE

Commodity	Unit	Price
Gold	1000 grams	350-3.5
Silver	1000 grams	350-3.5
Platinum	1000 grams	350-3.5

Commodity	Unit	Price
Gold	1000 grams	350-3.5
Silver	1000 grams	350-3.5
Platinum	1000 grams	350-3.5

Commodity	Unit	Price
Gold	1000 grams	350-3.5
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Silver	1000 grams	350-3.5
Platinum	1000 grams	350-3.5

Commodity	Unit	Price
Gold	1000 grams	350-3.5
Silver	1000 grams	350-3.5
Platinum	1000 grams	350-3.5

GRAINS AND OIL SEEDS

ALL FIGURES IN US DOLLARS PER TONNE

Commodity	Unit	Price
Wheat	1000 bushels	350-3.5
Corn	1000 bushels	350-3.5
Soybeans	1000 bushels	350-3.5

Commodity	Unit	Price
Wheat	1000 bushels	350-3.5
Corn	1000 bushels	350-3.5
Soybeans	1000 bushels	350-3.5

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Soybeans	1000 bushels	350-3.5

Commodity	Unit	Price
Wheat	1000 bushels	350-3.5
Corn	1000 bushels	350-3.5
Soybeans	1000 bushels	350-3.5

SOFTS

ALL FIGURES IN US DOLLARS PER TONNE

Commodity	Unit	Price
Wheat	1000 bushels	350-3.5
Corn	1000 bushels	350-3.5
Soybeans	1000 bushels	350-3.5

Commodity	Unit	Price
Wheat	1000 bushels	350-3.5
Corn	1000 bushels	350-3.5
Soybeans	1000 bushels	350-3.5

Commodity	Unit	Price
Wheat	1000 bushels	350-3.5
Corn	1000 bushels	350-3.5
Soybeans	1000 bushels	350-3.5


Commodity	Unit	Price
Wheat	1000 bushels	350-3.5
Corn	1000 bushels	350-3.5
Soybeans	1000 bushels	350-3.5

Mar	103.70	-2.70	106.25	103.50
May	104.25	-2.80	107.00	104.75
Jul	105.25	-2.55	108.25	105.75
Sep	106.25	-2.50	108.50	106.50
Dec	106.25	-2.55	110.50	110.00
Total				
☐☐☐				

FT Croyline Unit Trust Prices are available over the telephone. Call the FT Croyline Help Desk on (444 171) 873 4378 for more details.

[illegible]

Offshore Insurances and Other Funds

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+ 127,6 % *

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* Performance since 1.02.95 to 16.09.96 in USD
Past performance is not necessarily indicative of future results.

[illegible]

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE 100 Index.

Investment Trust Name	Price	% Chg	Dividend	Yield
1. ...	1.20	+0.5	0.05	4.2
2. ...	0.85	-0.2	0.03	3.5
3. ...	1.50	+0.1	0.06	4.0
4. ...	0.90	-0.1	0.04	4.4
5. ...	1.10	+0.3	0.05	4.5
6. ...	0.75	-0.3	0.02	2.7
7. ...	1.30	+0.2	0.07	5.4
8. ...	0.60	-0.4	0.01	1.7
9. ...	1.40	+0.1	0.08	5.7
10. ...	0.50	-0.5	0.01	2.0
11. ...	1.60	+0.4	0.09	5.6
12. ...	0.40	-0.6	0.01	2.5
13. ...	1.70	+0.2	0.10	5.9
14. ...	0.30	-0.7	0.01	3.3
15. ...	1.80	+0.1	0.11	6.1
16. ...	0.20	-0.8	0.01	5.0
17. ...	1.90	+0.3	0.12	6.3
18. ...	0.10	-0.9	0.01	10.0
19. ...	2.00	+0.5	0.13	6.5
20. ...	0.05	-1.0	0.01	20.0
21. ...	2.10	+0.6	0.14	6.7
22. ...	0.01	-1.1	0.01	50.0
23. ...	2.20	+0.7	0.15	6.8
24. ...	0.00	-1.2	0.01	100.0
25. ...	2.30	+0.8	0.16	7.0
26. ...	0.00	-1.3	0.01	200.0
27. ...	2.40	+0.9	0.17	7.1
28. ...	0.00	-1.4	0.01	300.0
29. ...	2.50	+1.0	0.18	7.2
30. ...	0.00	-1.5	0.01	400.0
31. ...	2.60	+1.1	0.19	7.3
32. ...	0.00	-1.6	0.01	500.0
33. ...	2.70	+1.2	0.20	7.4
34. ...	0.00	-1.7	0.01	600.0
35. ...	2.80	+1.3	0.21	7.5
36. ...	0.00	-1.8	0.01	700.0
37. ...	2.90	+1.4	0.22	7.6
38. ...	0.00	-1.9	0.01	800.0
39. ...	3.00	+1.5	0.23	7.7
40. ...	0.00	-2.0	0.01	900.0
41. ...	3.10	+1.6	0.24	7.8
42. ...	0.00	-2.1	0.01	1000.0
43. ...	3.20	+1.7	0.25	7.9
44. ...	0.00	-2.2	0.01	1100.0
45. ...	3.30	+1.8	0.26	8.0
46. ...	0.00	-2.3	0.01	1200.0
47. ...	3.40	+1.9	0.27	8.1
48. ...	0.00	-2.4	0.01	1300.0
49. ...	3.50	+2.0	0.28	8.2
50. ...	0.00	-2.5	0.01	1400.0
51. ...	3.60	+2.1	0.29	8.3
52. ...	0.00	-2.6	0.01	1500.0
53. ...	3.70	+2.2	0.30	8.4
54. ...	0.00	-2.7	0.01	1600.0
55. ...	3.80	+2.3	0.31	8.5
56. ...	0.00	-2.8	0.01	1700.0
57. ...	3.90	+2.4	0.32	8.6
58. ...	0.00	-2.9	0.01	1800.0
59. ...	4.00	+2.5	0.33	8.7
60. ...	0.00	-3.0	0.01	1900.0
61. ...	4.10	+2.6	0.34	8.8
62. ...	0.00	-3.1	0.01	2000.0
63. ...	4.20	+2.7	0.35	8.9
64. ...	0.00	-3.2	0.01	2100.0
65. ...	4.30	+2.8	0.36	9.0
66. ...	0.00	-3.3	0.01	2200.0
67. ...	4.40	+2.9	0.37	9.1
68. ...	0.00	-3.4	0.01	2300.0
69. ...	4.50	+3.0	0.38	9.2
70. ...	0.00	-3.5	0.01	2400.0
71. ...	4.60	+3.1	0.39	9.3
72. ...	0.00	-3.6	0.01	2500.0
73. ...	4.70	+3.2	0.40	9.4
74. ...	0.00	-3.7	0.01	2600.0
75. ...	4.80	+3.3	0.41	9.5
76. ...	0.00	-3.8	0.01	2700.0
77. ...	4.90	+3.4	0.42	9.6
78. ...	0.00	-3.9	0.01	2800.0
79. ...	5.00	+3.5	0.43	9.7
80. ...	0.00	-4.0	0.01	2900.0
81. ...	5.10	+3.6	0.44	9.8
82. ...	0.00	-4.1	0.01	3000.0
83. ...	5.20	+3.7	0.45	9.9
84. ...	0.00	-4.2	0.01	3100.0
85. ...	5.30	+3.8	0.46	10.0
86. ...	0.00	-4.3	0.01	3200.0
87. ...	5.40	+3.9	0.47	10.1
88. ...	0.00	-4.4	0.01	3300.0
89. ...	5.50	+4.0	0.48	10.2
90. ...	0.00	-4.5	0.01	3400.0
91. ...	5.60	+4.1	0.49	10.3
92. ...	0.00	-4.6	0.01	3500.0
93. ...	5.70	+4.2	0.50	10.4
94. ...	0.00	-4.7	0.01	3600.0
95. ...	5.80	+4.3	0.51	10.5
96. ...	0.00	-4.8	0.01	3700.0
97. ...	5.90	+4.4	0.52	10.6
98. ...	0.00	-4.9	0.01	3800.0
99. ...	6.00	+4.5	0.53	10.7
100. ...	0.00	-5.0	0.01	3900.0
101. ...	6.10	+4.6	0.54	10.8
102. ...	0.00	-5.1	0.01	4000.0
103. ...	6.20	+4.7	0.55	10.9
104. ...	0.00	-5.2	0.01	4100.0
105. ...	6.30	+4.8	0.56	11.0
106. ...	0.00	-5.3	0.01	4200.0
107. ...	6.40	+4.9	0.57	11.1
108. ...	0.00	-5.4	0.01	4300.0
109. ...	6.50	+5.0	0.58	11.2
110. ...	0.00	-5.5	0.01	4400.0
111. ...	6.60	+5.1	0.59	11.3
112. ...	0.00	-5.6	0.01	4500.0
113. ...	6.70	+5.2	0.60	11.4
114. ...	0.00	-5.7	0.01	4600.0
115. ...	6.80	+5.3	0.61	11.5
116. ...	0.00	-5.8	0.01	4700.0
117. ...	6.90	+5.4	0.62	11.6
118. ...	0.00	-5.9	0.01	4800.0
119. ...	7.00	+5.5	0.63	11.7
120. ...	0.00	-6.0	0.01	4900.0
121. ...	7.10	+5.6	0.64	11.8
122. ...	0.00	-6.1	0.01	5000.0
123. ...	7.20	+5.7	0.65	11.9
124. ...	0.00	-6.2	0.01	5100.0
125. ...	7.30	+5.8	0.66	12.0
126. ...	0.00	-6.3	0.01	5200.0
127. ...	7.40	+5.9	0.67	12.1
128. ...	0.00	-6.4	0.01	5300.0
129. ...	7.50	+6.0	0.68	12.2
130. ...	0.00	-6.5	0.01	5400.0
131. ...	7.60	+6.1	0.69	12.3
132. ...	0.00	-6.6	0.01	5500.0
133. ...	7.70	+6.2	0.70	12.4
134. ...	0.00	-6.7	0.01	5600.0
135. ...	7.80	+6.3	0.71	12.5
136. ...	0.00	-6.8	0.01	5700.0
137. ...	7.90	+6.4	0.72	12.6
138. ...	0.00	-6.9	0.01	5800.0
139. ...	8.00	+6.5	0.73	12.7
140. ...	0.00	-7.0	0.01	5900.0
141. ...	8.10	+6.6	0.74	12.8
142. ...	0.00	-7.1	0.01	6000.0
143. ...	8.20	+6.7	0.75	12.9
144. ...	0.00	-7.2	0.01	6100.0
145. ...	8.30	+6.8	0.76	13.0
146. ...	0.00	-7.3	0.01	6200.0
147. ...	8.40	+6.9	0.77	13.1
148. ...	0.00	-7.4	0.01	6300.0
149. ...	8.50	+7.0	0.78	13.2
150. ...	0.00	-7.5	0.01	6400.0
151. ...	8.60	+7.1	0.79	13.3
152. ...	0.00	-7.6	0.01	6500.0
153. ...	8.70	+7.2	0.80	13.4
154. ...	0.00	-7.7	0.01	6600.0
155. ...	8.80	+7.3	0.81	13.5
156. ...	0.00	-7.8	0.01	6700.0
157. ...	8.90	+7.4	0.82	13.6
158. ...	0.00	-7.9	0.01	6800.0
159. ...	9.00	+7.5	0.83	13.7
160. ...	0.00	-8.0	0.01	6900.0
161. ...	9.10	+7.6	0.84	13.8
162. ...	0.00	-8.1	0.01	7000.0
163. ...	9.20	+7.7	0.85	13.9
164. ...	0.00	-8.2	0.01	7100.0
165. ...	9.30	+7.8	0.86	14.0
166. ...	0.00	-8.3	0.01	7200.0
167. ...	9.40	+7.9	0.87	14.1
168. ...	0.00	-8.4	0.01	7300.0
169. ...	9.50	+8.0	0.88	14.2
170. ...	0.00	-8.5	0.01	7400.0
171. ...	9.60	+8.1	0.89	14.3
172. ...	0.00	-8.6	0.01	7500.0
173. ...	9.70	+8.2	0.90	14.4
174. ...	0.00	-8.7	0.01	7600.0
175. ...	9.80	+8.3	0.91	14.5
176. ...	0.00	-8.8	0.01	7700.0
177. ...	9.90	+8.4	0.92	14.6
178. ...	0.00	-8.9	0.01	7800.0
179. ...	10.00	+8.5	0.93	14.7
180. ...	0.00	-9.0	0.01	7900.0
181. ...	10.10	+8.6	0.94	14.8
182. ...	0.00	-9.1	0.01	8000.0</

Highs and Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

Austria (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
ATX	1,250.00	1,240.00	1,245.00	1,245.00	+10.00

Belgium (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
BELX	3,400.00	3,380.00	3,390.00	3,390.00	+20.00

Denmark (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
OMXC20	1,200.00	1,190.00	1,195.00	1,195.00	+10.00

France (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
CAC40	3,800.00	3,780.00	3,790.00	3,790.00	+10.00

Germany (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
DAX	3,200.00	3,180.00	3,190.00	3,190.00	+10.00

Greece (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
ATHEX	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Ireland (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
ISEQ	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Italy (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
FTSEMIB	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Netherlands (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
AEX	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Portugal (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
BVLPSX	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Spain (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
IBEX35	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Sweden (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
OMXC20	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Switzerland (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
SMI	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

UK (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
FTSE100	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

USA (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
DOW	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Japan (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
Nikkei	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Korea (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
KOSPI	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Malaysia (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
KLSE	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Philippines (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
PSE	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Singapore (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
SEI	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Taiwan (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
TSEI	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Thailand (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
SET	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

USA (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
DOW	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Japan (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
Nikkei	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Korea (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
KOSPI	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Malaysia (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
KLSE	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Philippines (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
PSE	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Singapore (Sep 29 / Sec)

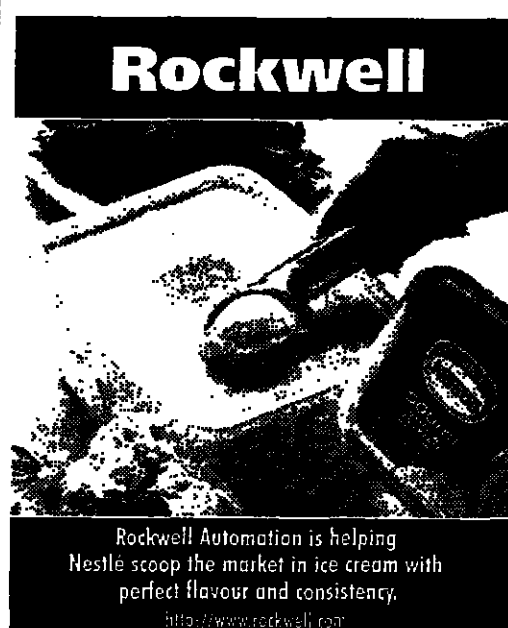
Index	High	Low	Open	Close	Change
SEI	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Taiwan (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
TSEI	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Thailand (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
SET	1,200.00	1,180.00	1,190.00	1,190.00	+20.00



Rockwell Automation is helping Nestle scoop the market in ice cream with perfect flavour and consistency.

USA (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
DOW	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Japan (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
Nikkei	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Korea (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
KOSPI	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Malaysia (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
KLSE	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Philippines (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
PSE	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Singapore (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
SEI	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Taiwan (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
TSEI	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Thailand (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
SET	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

USA (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
DOW	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Japan (Sep 29 / Sec)

Index	High	Low	Open	Close	Change
Nikkei	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

FTSE ACTUARIES WORLD INDICES

The FTSE Actuarial World Indices are owned by FTSE International Limited, London, and Standard & Poor's, New York. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the local actuaries and the Institute of Actuaries.

Index	High	Low	Open	Close	Change
Australia (72)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
Austria (22)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
Belgium (22)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
Brazil (22)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
Canada (118)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
Denmark (24)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
Finland (22)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
France (72)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
Germany (72)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
Greece (22)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
Hong Kong (68)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
India (22)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
Indonesia (22)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
Italy (72)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
Japan (72)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
Korea (22)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
Malaysia (22)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
Netherlands (22)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
New Zealand (22)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
Norway (22)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
Philippines (22)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
Portugal (22)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
South Africa (22)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
Spain (22)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
Sweden (22)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
Switzerland (22)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
Taiwan (22)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
Thailand (22)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
UK (22)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00
USA (22)	1,200.00	1,180.00	1,190.00	1,190.00	+20.00

Emerging markets:

FTSE investable indices

Dollar versus				
Index	High	Low	Open	Close
Australia (72)	1,200.00	1,180.00	1,190.00	1,190.00
Austria (22)	1,200.00	1,180.00	1,190.00	1,190.00
Belgium (22)	1,200.00	1,180.00	1,190.00	1,190.00
Brazil (22)	1,200.00	1,180.00	1,190.00	1,190.00
Canada (118)	1,200.00	1,180.00	1,190.00	1,190.00
Denmark (24)	1,200.00	1,180.00	1,190.00	1,190.00
Finland (22)	1,200.00	1,180.00	1,190.00	1,190.00
France (72)	1,200.00	1,180.00	1,190.00	1,190.00
Germany (72)	1,200.00	1,180.00	1,190.00	1,190.00
Greece (22)	1,200.00	1,180.00	1,190.00	1,190.00
Hong Kong (68)	1,200.00	1,180.00	1,190.00	1,190.00
India (22)	1,200.00	1,180.00	1,190.00	1,190.00
Indonesia (22)	1,200.00	1,180.00	1,190.00	1,190.00
Italy (72)	1,200.00	1,180.00	1,190.00	1,190.00
Japan (72)	1,200.00	1,180.00	1,190.00	1,190.00
Korea (22)	1,200.00	1,180.00	1,190.00	1,190.00
Malaysia (22)	1,200.00	1,180.00	1,190.00	1,190.00
Netherlands (22)	1,200.00	1,180.00	1,190.00	1,190.00
New Zealand (22)	1,200.00	1,180.00	1,190.00	1,190.00
Norway (22)	1,200.00	1,180.00	1,190.00	1,190.00
Philippines (22)	1,200.00	1,180.00	1,190.00	1,190.00
Portugal (22)	1,200.00	1,180.00	1,190.00	1,190.00
South Africa (22)	1,200.00	1,180.00	1,190.00	1,190.00
Spain (22)	1,200.00	1,180.00	1,190.00	1,190.00
Sweden (22)	1,200.00	1,180.00	1,190.00	1,190.00
Switzerland (22)	1,200.00	1,180.00	1,190.00	1,190.00
Taiwan (22)	1,200.00	1,180.00	1,190.00	1,190.00

NEW YORK STOCK EXCHANGE PRICES

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
101	102	103	104	105	106	107	108	109	110	111	112	113	114	115	116	117	118	119	120	121	122	123	124	125	126	127	128	129	130	131	132	133	134	135	136	137	138	139	140	141	142	143	144	145	146	147	148	149	150	151	152	153	154	155	156	157	158	159	160	161	162	163	164	165	166	167	168	169	170	171	172	173	174	175	176	177	178	179	180	181	182	183	184	185	186	187	188	189	190	191	192	193	194	195	196	197	198	199	200
201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300
301	302	303	304	305	306	307	308	309	310	311	312	313	314	315	316	317	318	319	320	321	322	323	324	325	326	327	328	329	330	331	332	333	334	335	336	337	338	339	340	341	342	343	344	345	346	347	348	349	350	351	352	353	354	355	356	357	358	359	360	361	362	363	364	365	366	367	368	369	370	371	372	373	374	375	376	377	378	379	380	381	382	383	384	385	386	387	388	389	390	391	392	393	394	395	396	397	398	399	400
401	402	403	404	405	406	407	408	409	410	411	412	413	414	415	416	417	418	419	420	421	422	423	424	425	426	427	428	429	430	431	432	433	434	435	436	437	438	439	440	441	442	443	444	445	446	447	448	449	450	451	452	453	454	455	456	457	458	459	460	461	462	463	464	465	466	467	468	469	470	471	472	473	474	475	476	477	478	479	480	481	482	483	484	485	486	487	488	489	490	491	492	493	494	495	496	497	498	499	500
501	502	503	504	505	506	507	508	509	510	511	512	513	514	515	516	517	518	519	520	521	522	523	524	525	526	527	528	529	530	531	532	533	534	535	536	537	538	539	540	541	542	543	544	545	546	547	548	549	550	551	552	553	554	555	556	557	558	559	560	561	562	563	564	565	566	567	568	569	570	571	572	573	574	575	576	577	578	579	580	581	582	583	584	585	586	587	588	589	590	591	592	593	594	595	596	597	598	599	600
601	602	603	604	605	606	607	608	609	610	611	612	613	614	615	616	617	618	619	620	621	622	623	624	625	626	627	628	629	630	631	632	633	634	635	636	637	638	639	640	641	642	643	644	645	646	647	648	649	650	651	652	653	654	655	656	657	658	659	660	661	662	663	664	665	666	667	668	669	670	671	672	673	674	675	676	677	678	679	680	681	682	683	684	685	686	687	688	689	690	691	692	693	694	695	696	697	698	699	700
701	702	703	704	705	706	707	708	709	710	711	712	713	714	715	716	717	718	719	720	721	722	723	724	725	726	727	728	729	730	731	732	733	734	735	736	737	738	739	740	741	742	743	744	745	746	747	748	749	750	751	752	753	754	755	756	757	758	759	760	761	762	763	764	765	766	767	768	769	770	771	772	773	774	775	776	777	778	779	780	781	782	783	784	785	786	787	788	789	790	791	792	793	794	795	796	797	798	799	800
801	802	803	804	805	806	807	808	809	810	811	812	813	814	815	816	817	818	819	820	821	822	823	824	825	826	827	828	829	830	831	832	833	834	835	836	837	838	839	840	841	842	843	844	845	846	847	848	849	850	851	852	853	854	855	856	857	858	859	860	861	862	863	864	865	866	867	868	869	870	871	872	873	874	875	876	877	878	879	880	881	882	883	884	885	886	887	888	889	890	891	892	893	894	895	896	897	898	899	900
901	902	903	904	905	906	907	908	909	910	911	912	913	914	915	916	917	918	919	920	921	922	923	924	925	926	927	928	929	930	931	932	933	934	935	936	937	938	939	940	941	942	943	944	945	946	947	948	949	950	951	952	953	954	955	956	957	958	959	960	961	962	963	964	965	966	967	968	969	970	971	972	973	974	975	976	977	978	979	980	981	982	983	984	985	986	987	988	989	990	991	992	993	994	995	996	997	998	999	1000

EUROBENCH "INSECTS" INDICES

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Prices presented by 1 = indicative value, 2 = settlement

Index	24-09-1998	24-09-1998	24-09-1998	24-09-1998	24-09-1998	24-09-1998
Europe	1000	1000	1000	1000	1000	1000
Europe 50	1000	1000	1000	1000	1000	1000
Europe 100	1000	1000	1000	1000	1000	1000
Europe 500	1000	1000	1000	1000	1000	1000
Europe 1000	1000	1000	1000	1000	1000	1000
Europe 1500	1000	1000	1000	1000	1000	1000
Europe 2000	1000	1000	1000	1000	1000	1000
Europe 2500	1000	1000	1000	1000	1000	1000
Europe 3000	1000	1000	1000	1000	1000	1000
Europe 3500	1000	1000	1000	1000	1000	1000
Europe 4000	1000	1000	1000	1000	1000	1000
Europe 4500	1000	1000	1000	1000	1000	1000
Europe 5000	1000	1000	1000	1000	1000	1000
Europe 5500	1000	1000	1000	1000	1000	1000
Europe 6000	1000	1000	1000	1000	1000	1000
Europe 6500	1000	1000	1000	1000	1000	1000
Europe 7000	1000	1000	1000	1000	1000	1000
Europe 7500	1000	1000	1000	1000	1000	1000
Europe 8000	1000	1000	1000	1000	1000	1000
Europe 8500	1000	1000	1000	1000	1000	1000
Europe 9000	1000	1000	1000	1000	1000	1000
Europe 9500	1000	1000	1000	1000	1000	1000
Europe 10000	1000	1000	1000	1000	1000	1000

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GLOBAL EQUITY MARKETS

US INDICES

Index	29 Sep	28 Sep	27 Sep	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	993	992	991	990	989	988	987	986	985	984	983	982	981	980	979	978	977	976	975	974	973	972	971	970	969	968	967	966	965	964	963	962	961	960	959	958	957	956	955	954	953	952	951	950	949	948	947	946	945	944	943	942	941	940	939	938	937	936	935	934	933	932	931	930	929	928	927	926	925	924	923	922	921	920	919	918	917	916	915	914	913	912	911	910	909	908	907	906	905	904	903	902	901	900	899	898	897	896	895	894	893	892	891	890	889	888	887	886	885	884	883	882	881	880	879	878	877	876	875	874	873	872	871	870	869	868	867	866	865	864	863	862	861	860	859	858	857	856	855	854	853	852	851	850	849	848	847	846	845	844	843	842	841	840	839	838	837	836	835	834	833	832	831	830	829	828	827	826	825	824	823	822	821	820	819	818	817	816	815	814	813	812	811	810	809	808	807	806	805	804	803	802	801	800	799	798	797	796	795	794	793	792	791	790	789	788	787	786	785	784	783	782	781	780	779	778	777	776	775	774	773	772	771	770	769	768	767	766	765	764	763	762	761	760	759	758	757	756	755	754	753	752	751	750	749	748	747	746	745	744	743	742	741	740	739	738	737	736	735	734	733	732	731	730	729	728	727	726	725	724	723	722	721	720	719	718	717	716	715	714	713	712	711	710	709	708	707	706	705	704	703	702	701	700	699	698	697	696	695	694	693	692	691	690	689	688	687	686	685	684	683	682	681	680	679	678	677	676	675	674	673	672	671	670	669	668	667	666	665	664	663	662	661	660	659	658	657	656	655	654	653	652	651	650	649	648	647	646	645	644	643	642	641	640	639	638	637	636	635	634	633	632	631	630	629	628	627	626	625	624	623	622	621	620	619	618	617	616	615	614	613	612	611	610	609	608	607	606	605	604	603	602
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STOCK MARKETS

Bourses show nerves ahead of Fed decision

WORLD OVERVIEW

Share markets paced about nervously most of the day, waiting for a signal on interest rates from the US central bank, writes Jeffrey Brown.

By recent standards, Asia was subdued and although Zurich and Frankfurt continued to notch up steady losses, investors' mood in the far east was widely mirrored in Europe, both in equity and bond markets.

The dollar trended lower

as the foreign exchanges clung to the view that the Federal Reserve open market committee would shortly sanction a reduction for the Fed funds target rate, possibly of between 50 and 25 basis points.

If equity market activity was dull though, the day was not without its broad shocks, which came in the shape of profit warnings from Hoogovens, the Dutch steel giant, and Switzerland's Saurer textile machinery

group. Coming in the wake of similar warnings from Shell, Philips and KLM, Hoogovens' statement was another blockbuster and it cast a deepening cloud over a sector already seen by many analysts as chillingly exposed to the forces of recession.

The steel industry, a lead indicator for the world industrial economy, is obviously finding it hard to adjust output to demand at a time when the latter is being

distorted by distress sales of steel from Asian producers. Yet the warning from Hoogovens sharpens up the theory that global demand trends are slowing dramatically. Less than two months ago, Hoogovens was confident of solid earnings growth in 1998; it is now predicting a flat year, at best.

Analysts' reactions yesterday were savage, cutting the consensus earnings forecasts for the Dutch group for next year by more than half. The

shares tumbled 6.8 per cent. Usinor of France dipped 4.4 per cent and Germany's Thyssen lost 4.6 per cent.

For stock markets, these European warnings constitute particularly bad timing. With the US third-quarter reporting season due to start in a few weeks' time, the market spotlight is likely to increasingly focus on profit trends.

Although most brokers feel that global earnings downgrades have further to

run, ABN-Amro, in its latest European strategy note, suggests that equities are now "near a base and increasingly represent reasonable long-term value".

ABN makes the point that bond-equity valuations are reaching down to historic extremes in favour of shares. At the same time, stronger consumption should mean that European growth is still relatively robust in 1998.

London market, Page 34

EMERGING MARKET FOCUS

Bangkok rally boosts confidence

False dawn or off to the races? Investors were pondering this question as the Thai stock market took a waiting-for-Greenspan breather yesterday, the benchmark SET index closing down 0.18 at 253.35 in thin volume.

In the previous four sessions, stocks had risen 14.5 per cent and another 50-point rise would have extended the gain to 20 per cent.

The reasons for the rise offer some hope that the market has already touched bottom. The dramatic fall in interest rates - lending rates have come down at least four percentage points to around 14 per cent - coupled with a stable currency is boosting confidence and may slow the growth of non-performing loans.

In addition, lower deposit rates, which are now in single digits, are providing an incentive for local investors to plough back into the stock market. On Monday, the last day of the rally, local retail investors accounted for 74 per cent of market turnover, compared with just 20 per cent for foreign investors.

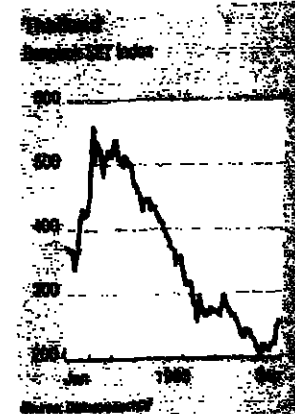
With such little volume in the market, a tiny inflow can have a dramatic effect - many investors made more on the market last week than they would on a one-year bank deposit.

Some foreigners have also been nibbling but almost by default, Malaysia and Indonesia are off traders' maps while many analysts believe Singapore and the Philippines still have far to fall.

SG Securities recently shifted its Thai position to "overweight" though Neil Saker, its senior regional economist, said this was not so much because Thailand is expected to see a quick recovery but "because everyone else is so bad".

"It's almost as if Thailand is seen as a defensive play," added another analyst.

With Thailand mired in



Dow drops after cut in interest rates

AMERICAS

US shares plunged soon after the Federal open market committee announced a quarter-point cut in the key Federal Funds rate, writes John Labate in New York.

The interest rate cut was widely expected but many in the market had hoped for a stronger half-point cut. Stocks were generally calm ahead of the mid-afternoon announcement, with the three main indices rising by midday. Some speculated that the Fed could ease rates again at its next meeting in mid-November.

Immediate investor reaction to the Fed move was sharp, with the Dow Jones Industrial Average down 80 points soon after the committee's decision.

By mid-afternoon, the market had recovered a bit. The Dow was down 49.95 to 8,058.89 while the Standard & Poor's 500 fell 3.42 to 1,045.27.

The Nasdaq composite lost 10.06 to 1,728.16, and the Russell 2,000 index of small-cap shares fell 3.88 or more than 1 per cent to 364.13.

Two high profile stocks put a drag on sentiment. Shares of Viacom, the entertainment company, plunged more than 14 per cent or 39½ to 353½ after Deutsche Morgan Grenfell and Merrill Lynch lowered their ratings.

Goodyear Tire dipped 4½ or more than 7 per cent to 55½ after the company lowered expectations of third-quarter earnings and announced a round of job cuts.

Shares of Cendant fell

more than 4 per cent or \$4 to \$124½ after the company restated its results back to 1995.

Gillette, the global consumer products company, fell \$2 or more than 5 per cent to \$37½ after J.P. Morgan cut its rating.

Retail stocks weakened with Federated Department Stores down 1¼ to \$37½ after BT Alex Brown cut its rating to "market performer". Wal-Mart lost \$2½ to \$58½ despite a raised rating by the same firm.

US Treasuries were mixed ahead of the Fed announcement, with volatility picking up after the announced rate cut. The benchmark long bond rose ½ to 105½, yielding 5.112 per cent.

In the telecoms sector, Bell Atlantic rose 1¼ to \$49 after it announced a restructuring and analysts at Dresdner rated the company a "buy". BellSouth also rose strongly, up 3½ or more than 4 per cent to \$76½.

TORONTO edged lower at midsession as investors played a wait-and-see game ahead of the Federal open market committee meeting. The TSE-300 composite index was 23.18 lower by midday at 5,846.10 in weak volume.

During morning trade, seven of the 14 market sub-indices were in negative territory, led by weakness in the transportation sector. In that group, Air Canada lost 35 cents to C\$5.75.

Banking issues overcame early weakness as the market awaited the Fed announcement. Royal Bank of Canada edged 30 cents higher to C\$63.10.

IMF set to disappoint

Latin American countries seeking a financial rescue plan from this week's IMF and World Bank annual meetings are likely to be disappointed, according to IMF officials.

For at best, finance ministers will go home with assurances that the IMF will step in with a credit line for Brazil along with an IMF programme requiring tough austerity measures to reduce the country's enormous deficit.

Markets across the region saw trade slow to a trickle ahead of the US federal open market committee's decision on interest rates.

In SAO PAULO the Bovespa index edged 23 points

higher to 6,850 at midsession. Analysts noted, however, that equity investors continued to be concerned over a renewed wave of capital flight.

Some \$738m was reported to have left the country's foreign exchange markets on Monday, the biggest dollar outflow for two weeks. More than \$30bn has left Brazil since the start of August.

BUENOS AIRES' Merval index eased 0.46 to 399.26 at midsession while SANTIAGO was flat with the IPSA index 0.13 higher at 66.50. MEXICO CITY was trendless with the IPC index 6.8 higher at 3,723.98.

Leasing collapse hits Nikkei

ASIA PACIFIC

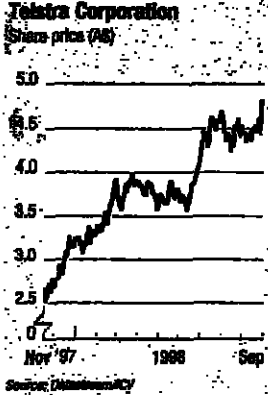
The collapse of Japan Leasing Corporation, an affiliate of the troubled Long-Term Credit Bank, and its motor leasing unit, spurred further anxiety about the financial sector and helped to push TOKYO lower, writes Alexandra Harney.

The Nikkei 225 average pared some of its early losses to close down 87.94 at 13,821.43, having traded between 13,952.35 and 13,553.02. Turnover was weak at 380m shares traded in the first session.

Momentum was strongly negative, with declining shares outnumbering rising issues 790 to 367 with 142 unchanged.

Investors were wary of the instability in the financial sector and profitability problems in blue-chip electronics companies. Shares in LTCB topped the market in volume but closed unchanged at ¥14.

Fuji Bank was down ¥12 to ¥318, Daiwa Securities ¥14 to ¥336 and Nikko Securities ¥18 to ¥317. But Nomura Securities, the biggest broker, was up ¥5 to ¥1,035.



Blue chips were mainly higher. Toshiba, the troubled electronics maker, gained ¥20 to ¥491. Mitsubishi Electric lost ¥15 to ¥213 but Toyota Motor, the largest carmaker, was up ¥30 to ¥3,130.

Nippon Steel, the number one steel maker, gained ¥10 to ¥200 on news of its sale of a semiconductor subsidiary to a Taiwanese group. But rival NKK was down ¥3 to ¥65 as the second most heavily traded stock.

Other market indices were mixed. The Topix index of first-sector stocks was down 0.82 to 1,062.29, and the Nik-

Zurich dips on financials sell-off

EUROPE

Shares in ZURICH fell more than 2 per cent, under pressure from a financials sell-off that was compounded by the weaker start on Wall Street. The SMI index registered a loss of 130.8 at 5,018.9.

Textile machinery and components maker Saurer crashed 15 per cent after the company said it expected lower 1998 profits. The registered shares lost SF135 to close near the day's low at SF769.

The company said a collapse in orders for textile machinery since the spring meant 1998 net profits would grow only slightly above the SF90m posted for the first eight months, well below last year's SF131m.

UBS, which said it would publish the findings of an internal audit by the end of the week, lost SF23 to SF315.

The audit is expected to shed light on the bank's costly involvement with Long-Term Capital Management, the troubled US hedge fund. CS Group lost SF4.50 to SF167.75.

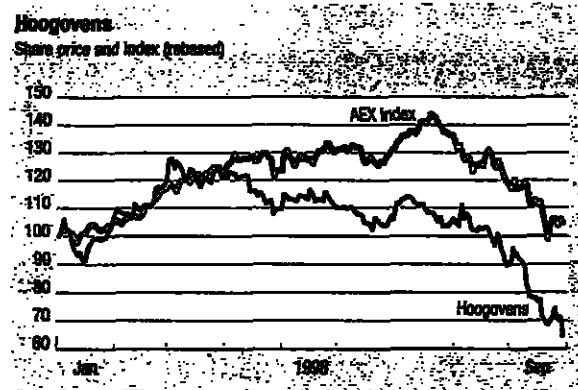
Among the pharmaceuticals, Roche certificates lost SF510 to SF14,990. Novartis fell SF730 to SF2,287 even as CSFB reiterated its "buy" recommendation and set an end-1999 price target of SF2,615.

PARIS ended little changed after another fairly volatile session. The CAC 40 index closed off 0.59 at 3,337.05 in turnover of FF118bn.

Usinor slid after a profits warning from Dutch steel rival Hoogovens, dipping FF5.50 to FF66.00 and Thomson-CSF was also weak, falling FF11.10 or 5.8 per cent to FF178.

France Telecom fell FF12.00 to FF350 for a two-day slide of 5.3 per cent as investors fretted about the possibility of a big stock overhang with the government teeing up the sale of further state-owned shares.

Selected banks supplied solid support, rallying from recent lows following a positive note from Lehman Brothers. BNP gained FF18.00 or 5.8 per cent to FF240 and Par-



hoes fell FF11.50 to FF341.5.

AMSTERDAM took a stern profit-taking from steel leader Hoogovens on the chin and fell 11.50 to 957.89 on the AEX index.

Hoogovens fell precipitously after switching from a forecast of good growth this year to unchanged profits. Amid a round of savage earnings adjustments by brokers, the shares came off F15.50 to F154.00.

KLM, which warned of profits weakness on Friday, retreated a further F12.80 to F151.40 for a two-day decline of 7 per cent.

Hopes for a takeover battle set retailer KBB up F12.60 or 8.9 per cent to F155. Unilever WE International has offered F1160-165 a share, topping the F1145 maximum being put up by Vendex. Vendex shed F13.70 to F172.50.

FRANKFURT was burdened by further weakness in the utilities during a day of cautious trade as the market adjusted to the new government. By the close, the Xetra Dax index was 77.28 or 1.7 per cent lower at 4,600.33.

Utilities remained out of favour on worries that the new Greens-included government would push to end atomic power use and impose taxes on energy consumption. Vieg, whose Bayernwerk business draws a large proportion of its electricity from nuclear power plants, lost DM103 to DM114.5. RWE fell DM6.51 DM80.99 and Veba dropped DM3.47 to DM89.03.

Among the industrials, Thyssen lost DM13.90 to DM291.10 and Krupp was DM12 lower at DM218 in the

wake of the earnings warning by Dutch rival steel maker Hoogovens.

Mannesmann put on DM6.60 to DM157 and Preussag jumped DM23.50 to DM594 on an earnings upgrade from BNP.

MILAN was dominated by activity in the banking sector, and the Mibtel index edged marginally lower, falling 9 to 19,288.

Banca Commerciale Italiana closed down 1.252 or 2.4 per cent to L10,201 after a roller-coaster day. The shares initially rose almost 10 per cent before a board meeting, but later fell 5 per cent after news that Luigi Fausti, its chairman, was stepping down.

Hopes that the departure of Mr Fausti, who had opposed BCI's merger with Banca di Roma, pushed Roma higher. The shares, the most active of the day,

closed up L145 or 5.3 per cent to L2,888.

Parlatat, the dairy products group, rose L102 or 4 per cent to L2,572 on strong first-half profits.

MADRID was flat as investors waited for a possible move on interest rates in the US. The general index rose 0.76 or 0.1 per cent to 716.30. BCH led the most actively traded issues, rising Ptas35 to Ptas130, followed by Banco Bilbao Vizcaya, which gained Ptas to Ptas1,665.

Telefonica, which has been regaining ground after a sell-off on Latin American pessimism, rose Ptas40 to Ptas410.

Iberdrola fell Ptas40 to Ptas335 after BBV sold 0.5 per cent of its shares to institutional investors at Ptas2,375 per share.

HELSINKI closed down on weakness in Nokia, and the HEX index ended down 43.82 or 1 per cent at 4,263.62.

Nokia tracked its ADR, which fell at the opening of Wall Street. The shares closed down FMS to FMS425.

Raisio, the foods group, jumped FMT10 or 10 per cent on an upgrade to a "strong buy" at CSFB.

CSFB said that in six months' time, Benecol, its proven low-cholesterol margarine, may have been launched in the US as well as some European markets.

Written and edited by Michael Morgan, Jeffrey Brown, Emilio Terazono and Peter Hall

Profit-takers weaken Jo'burg

SOUTH AFRICA

Shares in Johannesburg moved lower as the profit-takers homed in on selected sectors, notably financials. The all share index ended off 1.9 per cent at 5,194.4.

Industrials slipped 2.5 per cent to 5,893.7 and financials,

which met with heavy selling, retreated 2.1 per cent to 7,679.4. Standard Bank declined 8.1 per cent to R13.10.

Gold stayed volatile, rebounding on a better day for bullion. The gold index advanced 6.5 per cent to 1,166.5.

that shrank to HK\$4.4bn as investors became increasingly cautious before holidays tomorrow, Friday and next Tuesday.

The market fell on the heels of index heavyweight HSBC, which dropped HK\$3.50 to HK\$141.50. Hutchison closed 80 cents lower at HK\$39.70 and Cheung Kong lost 70 cents to HK\$34.80.

KUALA LUMPUR lost 2.5 per cent, with investors distracted by the court appearance of Anwar Ibrahim, former finance minister, charged with corruption and alleged sex crimes.

The composite index lost 9.75 to 377.52 in very thin volume of 119m shares. Privatised rice importer Padibheras Nasional gained 6 cents to M\$1.17 on the view that the company would benefit from its close government links.

KARACHI climbed 3.1 per cent on news that a panel of US legislators had voted to give President Bill Clinton flexibility in dealing with US sanctions against India and Pakistan for conducting nuclear tests by allowing a one-year waiver of the sanctions. The KSE-100 index rose 33.54 to 1,113.35.

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Continuing growth in demand for data transmission is the principal driver for change within the industry. Alan Cane reports

Finding partners becomes priority

Mergers, acquisitions and strategic alliances continue to dominate the global telecommunications picture as operators, manufacturers and service providers jostle for position in an increasingly crowded landscape.

If it looks complicated from the outside, it is almost as confusing for those in the industry itself. The growth in demand for data transmission, and in particular for internet services, remains the principal driver for change. For example, it is now provoking mergers among telecoms manufacturers in a mirror-image of the activity among operators.

But it is all far from comfortable for the traditional players. As Pekka Tarjanne, outgoing secretary-general of the International Telecommunication Union, noted recently: "The internet has grown up out of the young dynamic and unregulated culture of the computing sector. By contrast, the telecommunications industry is sober and highly regulated, moving at a slower pace to implement long-term network investment strategies."

The traditional telecoms industry can throw up its share of surprises, however. The past few torrid months have seen some spectacular mergers. AT&T, the largest US long-distance carrier, shook off its lethargy of recent years to play a leading part in two of the most significant.

In June, it announced its intention to buy Telecommunications Inc., the largest cable television operator in the US, for about \$45.4bn. Then, in July, it announced it was forming a joint venture, expected to generate annual revenues of more than \$10bn, with British Telecommunications, the dominant UK operator. Owned equally by the two companies, the venture will combine the international assets and operations of the two companies.

Just as important, the two companies said they were working together to develop a new global data network which would operate according to the rules of the internet.

These deals, however, are only the most dramatic examples of the consolidation which is now reshaping communications industries across the world. As the old demarcation lines are destroyed by market liberalisation, the advance of tech-

nology and by globalisation, there is a growing realisation that no company can be fully competitive on its own. The search, therefore, is for partners with complementary regional advantages, skills or geographic assets.

AT&T's deal with TCI is an example of the first category. It should eventually give the long-distance operator direct connection to about one-third of US homes via TCI's cables and enable it to outflank the local operators - the regional Bell operating companies (RBOCs).

The logic is that it is both expensive and difficult to break into a market where the incumbent is well entrenched: far better to merge with an electronic Trojan Horse inside the enemy's defences. It was difficulties in opening up the US local market which caused friction between British Telecommunications and its former merger partner, MCI of the US, and allowed WorldCom to make off with MCI under RTT's nose.

In the UK, similar logic can be seen in the creation last year of Cable and Wireless Communications, where the union of a long-distance operator - Mercury Communications - with three cable companies is already providing a more telling threat to BT's dominance than the individual partners

In the US, substantial consolidation has already taken place among the RBOCs, reduced in number from seven to four over the past two years. Earlier this year, SBC Communications announced a \$66bn merger with Ameritech. Bell Atlantic and GTE Corporation fol-

lowed suit shortly afterwards

All of this has been made possible by the liberal environment engendered by the 1996 US Telecommunications Act. Critics argue, however, that consolidation is against the spirit of the legislation which was designed to benefit consumers by fostering competition on a grand scale.

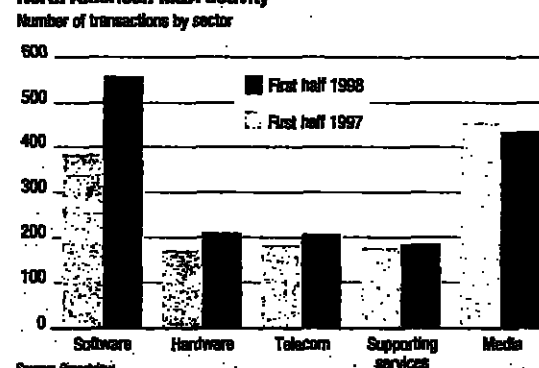
Instead, they say, it seems more likely that the communications environment will be dominated by a few giant telecoms groups. This ignores the fact that a new breed of operator - WorldCom or Qwest of the US, Colt based in the UK or RSL Communications, for example - using the most advanced technologies can build more efficient networks than conventional operators at a fraction of the price. The old arguments for size to provide the necessary economies of scale have been effectively demolished.

"Voice over the internet," a laboratory curiosity only a few years ago, now represents a potent threat to conventional operators' revenues. Essentially, the technology snips voice calls into discrete packets of data and despatches them over the internet to their destination where they are reassembled as coherent speech. Using voice over the internet subscribers can make international calls for the cost of a local connection.

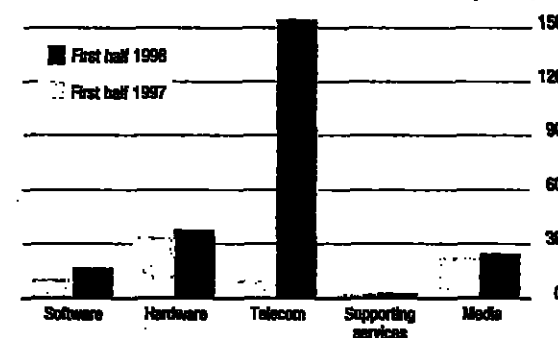
The demand for internet technology is putting new pressure on telecoms manufacturers such as Lucent, Northern Telecom and Alcatel. They are generally weak in data transmission



North American M&A activity



Transaction value by sector (\$bn)



traditional business while making provision for the new. The importance of global assets was emphasised by AT&T's decision to form a joint venture with BT. To do so, it will have to pull out of its existing international alliances, WorldPartners and AT&TUnisource. The deal with BT, however, will give it significantly more control over the quality of service it is able to offer its international customers.

BT, after the disappointment of the failure of its planned merger with MCI, will be able to rely on its US partner to distribute its advanced telecoms services throughout North America.

Cable and Wireless, the UK's second-largest telecoms group, takes credit this year for the most opportunistic acquisition. When regulators in the US and Brussels told MCI it had to sell off in total its internet interests if its merger with WorldCom was to be allowed, C&W moved swiftly to secure the prize in a deal valued at about

\$1.75bn. C&W acquired MCI's internet backbone, the computers which direct the internet traffic and contracts with thousands of internet service providers and US corporate customers. In one move it catapulted itself into the big league of internet operators.

Consolidation in the industry is far from complete. In the next few years the plethora of new operators in Europe will be pared down as call charges decline and competition intensifies. In particular, the merging of mobile and fixed wire operators to provide full service telecoms companies has hardly begun.



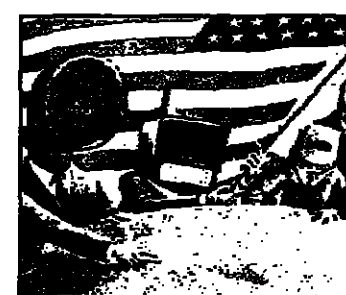
Privatisations

Governments around the world have been selling stakes in their telecoms companies. The focus is now on secondary issues

Pages 5-6

Telecoms in business

FT writers report on the technological developments in a fast-changing industry, from intelligent networks to value-added services

Pages 6-9

The Americas

Deregulation around the world has led to US companies shifting their largely domestic gaze. FT writers report from North, Central and Latin America

Pages 11-15

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VIEWPOINT By Alan Cane

ON THE LINE: Rich McGinn, chairman and CEO of Lucent Technologies By Joia Shillingford

The culture gap When networks link up...

The internet is the model for convergence of telecoms and computing

The convergence of telecommunications and computing is today more a matter of anticipation than reality. This does not mean it will not happen, and happen soon, but that the cultural differences which hold the two worlds apart remain as strong as at any time in the past 50 years.

The internet, culturally separate from both, is nevertheless the model for convergence. A broad range of organisations are now building new global data networks which obey internet rules. The actuality of convergence will force both telecoms operators and manufacturers to look afresh at their basic assumptions.

The telecoms operators' guiding principle since the turn of the century has been an unyielding respect for the integrity of the network. This has resulted in what Roel Pieper, newly-appointed executive vice-president at Philips Electronics, described at a recent conference as "perfect stability".

Telecoms systems rarely fail. They are based on tried and tested technology from established manufacturers.

By comparison, the computer industry lives with a high rate of systems breakdown and failure. Levels of systems availability that would be regarded as unacceptable in telecoms are the norm in data processing. PCs, the heart of information technology, "crash"

with a frequency that would drive their owners to despair if they were used to make telephone calls.

The conference at which Mr Pieper was speaking, Estoril, Portugal, is essentially a computer conference. It is changing, however, as the significance of telecoms in the new information economy become apparent. Most of the manufacturers exhibiting there were offering internet-related products. Most were innovative, software-based and not currently available from traditional manufacturers.

Traditional operators, however, are among the most active of those groups building the new data networks. To create such a system was one of the most important objectives of the alliance announced earlier this year between AT&T and British Telecommunications. As these networks grow in size and influence, their operators will seek innovative products to run on them. This will bring them into contact with software companies which cannot promise "perfect stability". Many, after a period of growth characterised by an accelerating share price and stratospheric price/earnings ratio, falter and fail.

Another speaker in Estoril, Mitchell Kertzman, chief executive of the applications software company Sybase, provided a compelling analysis for the failure of these companies which put much of the blame on the careless use of stock options to reward employees.

He argued that internet companies seem to be val-

ued by the amount they spend, rather than traditional methods. This is because of a perception that "market share is critical in a fast-evolving new market and that spending is the key to market share. The share price, at this point, is driven by "momentum investors" who will invest at virtually any price as long as the growth of the company maintains its upward trajectory.

The danger, of course, is that if business targets are missed by the smallest degree, momentum slows and the stock falls. The practice of rewarding staff with stock options means that management has a dual objective - to satisfy momentum investors and to reassure staff with stock options.

What happens too often, Mr Kertzman claims, is that customers are offered increasing discounts to ensure the company makes its targets. It is, of course, an unsustainable ploy. Targets are missed, momentum investors bail out, and the stock price begins its death spiral. Staff, acting as momentum investors with their own careers, leave. The company hits the wall.

Telecoms operators will increasingly have to deal with these less-than-perfectly-stable software houses as they seek new and better applications with which to tempt their customers.

The internet will, over the next few years, stabilise and offer businesses a business class service. It is critically important that applications on the network are no less reliable.

The head of Lucent Technologies explains his ingredients for success in a new world and the challenges his US company is likely to face

For adrenalin junkies, there's never been a better time to work in telecoms, says Rich McGinn, head of Lucent Technologies, the US telecoms equipment company. "Along with tourism, telecoms is one of the largest growth industries in the world."

Analysts predict that Lucent's financial year, which ends today, will see the company with sales worth \$30bn - representing growth of 20 per cent on the previous year. "That's not bad growth for a company as large as Lucent," says Mr McGinn.

He believes the telecoms industry will evolve into a "network of networks", with cable television networks, broadband and fibre-optic networks all linked together. Both data and voice will travel over this network, but they will be broken into small chunks so that many calls can be sent down the same line.

This approach is known as packet-switched as opposed to traditional telecoms networks, which are circuit-switched - keeping a whole circuit open for each call.

Mr McGinn believes the ingredients for success in this new world are: good network management software, fibre-optics, asynchronous transfer mode (ATM) technology and packet-switching products that can handle internet protocol (IP). Lucent is a market leader

in many of these areas. In optical networking it is due to deliver the first dense wave division multiplexing system that can split a single fibre optic line into 80 channels, and the company recently beat US rival Ciena to a large optical networking order from a US telecoms carrier.

For internet protocol networks Lucent has the PacketStar range of products launched in May. These allow internet service providers to prioritise traffic over their networks so that urgent messages get there faster. MCI was the first customer to try the product.

However, what Mr McGinn describes as the "confluence of computers and telecoms" is creating new competitors for companies such as Lucent. Telecoms equipment companies already face price pressures from former telecoms monopolies which are having to cut their own prices.

But now computer networking companies such as Cisco, Ascend Communications and Bay Networks (recently snapped up by Nortel of Canada) are selling their IP routing products not just to large companies but also to telecoms operators.

Lucent has a number of options, not mutually exclusive. It can use Lucent Bell Laboratories (once part of AT&T Bell Laboratories) to develop better products - current research and development spending is \$3.5bn a



Rich McGinn: 'No one has the monopoly on genius'

year - or it can buy a company with the expertise it needs. In fact, a tax bar that prevents Lucent from participating in low-cost mergers through the "pooling of interests" ends today.

Mr McGinn is not ruling out buying a company with IP expertise. He says: "If there are companies consistent with our strategy that can accelerate our progress, we will take them seriously."

Whatever happens, Lucent already has some knowledge and patents in the IP area. It is currently suing Cisco and Newbridge Networks over alleged patent infringement and says it has settled with several other companies.

Mr McGinn believes "no one has the monopoly on genius", and he bought an "ATM" company - Yurie Systems - when he wanted leading products for the high-speed ATM networks

that can transport voice, data and video. Since Lucent was spun off from AT&T two years ago the company has spent several billion dollars on acquisitions, including SDX Business Systems, Prominet (which has Gigabit Ethernet) and Livingston Technologies, a specialist in remote access.

Mr McGinn, whose first job was as a telecoms salesman for Illinois Bell before joining AT&T in 1978, is optimistic about the future. He points to the huge number of additional lines being bought by US households. Many now have four, he says, with lines for fax machines and the internet.

The McGinn household, for example, has 12 phones connected to a switchboard. Some of these are wireless extensions and work outside the house, too. There is even a line not connected to the switchboard so that it will

still work if there are power failures during storms.

Outside the US, Mr McGinn sees China providing tremendous growth, with 20m new lines each year. He says the Chinese market is very demanding for telecoms suppliers, not just because of the capacity required but because it wants to benefit from the latest technological advances.

Mr McGinn likes staff to beat the deadlines he sets: he is an appreciative man, and is clearly much happier talking about what his staff have achieved than his own achievements. He has trouble thinking of the biggest challenge of his career, and when a colleague suggests that it might have been helping to spin off Lucent from AT&T, he says "but that was easy".

Early this month Mr McGinn was in Paris to tell Lucent staff based in Europe about a new issue of employee share options. He says: "I want everyone, including those on the shop floor, to view the company in the same position as other shareholders."

He is also keen on having a diverse workforce, with different backgrounds and viewpoints. Forty per cent of senior managers come from outside AT&T. And although Mr McGinn worked for AT&T for 18 years, he says "we didn't want staff who only saw the world the way telecoms carriers see it. Otherwise we would miss opportunities."

"It is no coincidence that CNN, the global news network, wasn't thought up by a conventional TV network, because that wasn't the way they did things."

It is unlikely that the engaging Mr McGinn finds much time to watch TV. He loves sport - any sport - and he and his wife have a camp in the Adirondack mountains.

"The other weekend we went there," he says with a smile. "We sailed, we biked, we boated, we played tennis, we waterskied - all in two days. My wife said: 'Isn't it great we're getting time to relax.'"

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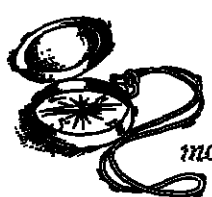
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OVERVIEW • By Jola Shillingford

Secondary issues to the fore

Governments are now looking to sell further stakes of part-sold utilities

Few regions of the world are virgin territory for telecoms privatisations, so the emphasis is shifting towards secondary issues, where a second tranche of equity is floated.

In Europe, most of the largest telecoms companies (telcos) have already been privatised. British Telecom, Telecom Italia, Telefonica of Spain and Tele Danmark are 100 per cent privatised. The next big thing in Europe in the coming months will be the privatisation of Swisscom.

The telcos' brokers are currently talking to investors around the world about the stock. However, the percentage of equity being floated has already been cut because of uncertainty about the markets.

A second tranche of France Telecom is due to be floated in the next three months or so. Also on the stocks are Telekom Austria and Sonera of Finland, which should come to mar-

ket in the next three to six months. Another tranche of Portugal Telecom is coming up, and there could be a third tranche of KPN of the Netherlands.

In 1999, Belgacom of Belgium, Telia of Sweden and Telenor of Norway all plan share issues. Turk Telecom is expected to come to market sometime next year.

There could be a secondary issue of OTE, Greece's public telecoms operator. However, OTE's chairman, Dimitris Papoulias, stepped down earlier this month, over reports of a clash with the chief executive over the sale of a 15 per cent tranche to domestic and foreign investors.

Mr Papoulias, last year masterminded the successful flotation of a 15 per cent equity tranche under the government's partial privatisation programme.

Thirty-seven per cent of OTE is owned by a mix of private investors and institutions.

In eastern Europe, the Czech Republic and Hungarian phone companies have already been privatised. Ameritech of the US and Deutsche Telekom of Germany both took stakes in Matav of Hungary prior to

its successful initial public offering of the remaining 40 per cent of equity last autumn. Other east European telcos due to privatise are TPSA of Poland and Estonia Telecom.

Bulgaria's telecoms company is being privatised and Rum Telekom of Romania has been seeking partners, though many have withdrawn from the bidding process. In Latin America, the biggest telco, Telebras of Brazil, has already been privatised. The Brazilian government is to license a number of competitors to compete with Telebras, and this is generating some excitement.

Turbulence in Asia-Pacific financial markets will reduce the number of telecoms privatisations there in the next year: exceptions include Telstra of Australia and Chung Hwa of Taiwan.

The Australian government has promised to float the second tranche of Telstra - probably next year - if it is re-elected next month. Optus, the rival Australian phone company which is part-owned by Cable & Wireless, is due to be floated either this year or next. In Hong Kong and China, the stock exchange-listed China

Telecom (Hong Kong) could be turned into a vehicle for the privatisation of more of China Telecom.

The Japanese Finance Ministry has begun preparations for a fourth tranche of up to 1m shares in NTT, the country's long-distance carrier. The ministry owns 65.4 per cent of the group and plans to choose lead managers for the issue by early October, with the intention of the sale going ahead this year. The Japanese government is expected to raise around ¥1,000bn from selling the shares at home and in the US and UK. Docomo, NTT's mobile arm, is also due to be floated this year, for around \$50m in what will be one of the world's largest share offerings in recent years.

Korea Telecom could also float this year or next.

Africa is one of the main areas of the world where there has been little telecoms privatisation activity. A stake in Telkom of South Africa has been sold, and Kenya and Uganda have been considering floatations. However, the African cellular market is attractive because of the low penetration of fixed phones and the huge infrastructure spend-

ing that would be necessary to cable remote areas.

With the recent downturn in world stock markets there is sufficient demand in world markets for all these privatisations?

James Ross, telecoms analyst at ABN Amro Hoare Govett, believes there is. "The big discovery over the past couple of years has been the domestic retail market," he says. "Five years ago the assumption was that the main investment would be from big investment institutions. The discovery was that every market could have wider share ownership. Telecoms shares combine the security of a government bond with an attractive yield and scope for capital appreciation."

"Provided the local retail markets behave the same way in future issues of telecoms shares, the demand will be there."

Retail demand has also been helped in the last few years by falling inflation, which makes the return on other forms of investment such as bonds less attractive. Investing in a telco is seen as the acceptable face of entering the equities market.

There is an alternative to



France Telecom development branch executive director Jean Damiliani (left centre) and NYSE chairman, Richard Grasso, were surrounded by can-can dancers at the company's IPO. Photo: AP

to increase if uncertainty in world markets continues. This is because it enables a government to raise money in, say, a private auction without having to worry about what the markets are doing.

In the Asia-Pacific region, several Asian governments have tried to sell stakes to other telcos, but often the deals have failed to materialise because the asking prices have been too high. Timothy Cawley, head of Ameritech International, which has stakes in privatised European companies, believes one telco that sells a stake to another can benefit from the additional resources and ideas it brings.

He says: "The strategic partner has much greater interest in the telco succeeding than a management consultant brought in temporarily to introduce change."

"By floating on the stock market a telco has the possibility of a higher price in the short term for the stake it sells. But it won't get the benefits of another's experience that can help raise the value of the rest of its stake."

"For a company whose results are not as favourable as they could be, it may even make sense to bring in a strategic investor to improve the story, before the initial private offering," adds Mr Cawley.

what is normally understood as privatisation, which is simply to sell a stake in a government telco to another company, usually a foreign telco. In fact, many of the

privatisations that have already taken place are a mix of publicly-quoted shares and a stake (or several) owned by foreign telcos. This method may be set

REGULATION • By George Black

Role in need of definition

The framework for overseeing competition in many countries is still immature

Regulators are struggling to boost competition in the new, privatised world of international telecommunications.

In the old world of monopoly, the state was industry regulator as well as service provider. When governments decided to transfer

their telecommunications to the private sector, it was generally acknowledged that independent regulators would be needed to ensure a fair and competitive market.

In most countries, this independent regulatory framework is still immature. The US, Sweden and the UK are exceptional in their progress.

In most of the European Union, where the market was officially opened up to full competition at the beginning of this year, the role of the regulator is still not clearly defined, so competition could be fairly slow to emerge in some countries.

The telecommunications market is mainly still ruled by national bodies, even though it has been transformed into an international business. The European Commission would like it to be regulated at an international level, but this could take years to achieve.

Regulators are limited by the framework established by governments when they privatise, but a pro-active regulator can greatly influence the direction of a market. In setting the framework, politicians can decide which companies are let into the market and at what times to nurture the growth of the most promising competitors.

This gradual opening of the market happened with the UK's duopoly - BT and Cable & Wireless - 10 years ago and the more recent extension of the field to all-comers. But, even after 10 years, BT still holds around three-quarters of the domestic market, which shows how long it takes for the strategy of a regulator to have its effect.

Secondly, there is the decision, which rests ultimately with ministers, on the areas of the market in which competition will be allowed. In the UK, BT has been barred from the entertainment sector for a time to stimulate the growth of competition from cable operators.

The most important decision which is left to the regulator, after these ground rules have been laid down, is how to control prices. This can be done either through setting limits to charges for customers or indirectly through controlling the charges for interconnect arrangements.

Price caps introduced in the UK a few years ago helped to push down charges for voice calls. But in the data communications sector the UK regulator, like most others, has done very little.

notes Margrit Sessions, managing director of the Phillips Tariff consultancy. BT's prices for leased lines and for ISDN are consequently higher than those in other European countries, she notes.

Controlling interconnect charges can be a more effective means of influence. "The regulator's biggest task is to ensure fair charging of new entrants by the incumbent for connecting to its network," says Robin Bosworth, a director of the consultancy Schema.

This is a complex job, since it requires an accurate assessment of the costs of running a network. Often the incumbent operator simply does not know these costs, and usually there is an incentive for it to present the costs to the authorities in a form that favours its own business.

Incumbents may assess their costs on the basis of historical performance, which is likely to reflect the sometimes enormous inefficiencies of a monopoly.

One way round this difficulty may be to apply international benchmarks, for example from the US where the competitive market is most developed. But it is arguable that the US situation is not comparable to that of Europe.

Another key task for regulators is to administer a fair numbering regime. Certain number sets are more attractive to telephone users, and the availability of good numbers affects the choice of supplier.

Another way in which regulators can boost competition is through control of cross-charging and cross-subsidy. Without regulation, incumbents can use clever accounting to retain market share and keep new entrants out of their most favoured areas of business. A close watch on how the books are kept can prevent this happening.

Conversely, a too-zealous regulator could discourage the incumbent from maintaining its level of investment and services. It will not invest merely for others to cream off profits.

Incumbents are typically disadvantaged by being legally bound to serve customers in remote districts, even though it may be unprofitable to do so. The regulator has to be fair to the incumbents in taking account of the costs attached to these operations.

A significant challenge for regulators in the next few years will be to manage competition in the local loop, the "last mile" of the network, which European Union governments are introducing under pressure from the Commission. The changes which the Commission wants should make it easier for new entrants to compete with incumbents.

Finally, the whole regulatory framework could be overturned by the convergence of telecommunications with broadcasting and computing. Governments are only just beginning to grapple with the implications of this next revolution.



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Telecoms 6 Privatisation/Telecoms in business

PROFILE Telstra

Success story has far to run

In a matter of years, Telstra has virtually transformed itself from a stodgy, state-owned basic telephone services company to one of Australia's outstanding corporate success stories. But the story is far from complete.

Following fierce political debate about the company's future, and signs of greater regulatory intervention, Telstra appears to be entering an uncertain phase which could dampen, rather than extinguish, its current shine.

Telstra's partial float on the Australian Stock Exchange last November drove profitability to record levels in the year to June. Net profit jumped 17 per cent to \$30n, the highest level ever reported by an Australian company and 7 per cent above the prospectus forecast.

Revenues jumped 8.3 per cent to \$17.3bn on strong growth in relatively new areas of business such as mobile telephony as well as internet and data services. "Traditional" services, such as basic telephony, now account for just 55 per cent of Telstra's total revenue.

Telstra's share price plunged nearly 4 per cent after the company announced record financial results in August, mainly on news that the board had

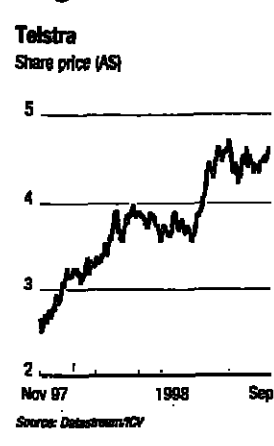
ruled out a special dividend and would be unlikely to exclude dividends from tax beyond the current financial year to June. This was despite a final dividend of 7 cents, bringing the annual payout to 14 cents, above the prospectus forecast of 13 cents.

Some analysts and investors, however, argued the carrier should have made a one-off payment to distribute some of its immense cash-flows, which rose 7.3 per cent in the year to \$5.6bn.

But what critics described as excessive prudence on the part of chief executive Frank Blount and the Telstra board is more a reflection of the company's increasingly mixed outlook. Telstra signalled its determination to keep cash on hand to respond to growing domestic competition, cushion itself from further fallout from Asian economic upheaval, and exploit new investment opportunities.

Finding a successor to Mr Blount, a tough, American-born executive who joined Telstra from AT&T and intends to leave at the end of the year, is another daunting challenge and is likely to weigh on the company's share price in the current year.

The biggest challenge,



however, is the way national politics have left Telstra in what Mr Blount described as a "never-never land" between public and private ownership.

Telstra shares made their market debut at a 30 per cent premium to the first instalment price of A\$1.95 per share. More than 1.8m Australian investors participated, and analysts say there is strong appetite for more Telstra shares.

Two-thirds of Telstra remain locked up in the government's stake, putting Canberra in a much-criticised dual role of regulator and major shareholder. The future of its 66 per cent stake triggered intense political debate earlier in the year and turned Telstra into an

election issue in the lead-up to the October 3 polls.

John Howard, the prime minister, had initially pledged to sell the government's entire stake and use the proceeds to retire national debt and provide a "social bonus" for Australians. Powerful interests, including rural lobby groups, opposed the sale, arguing that a fully privatised Telstra would not adequately maintain unprofitable rural services.

In a humiliating backdown in July, Mr Howard's proposal was defeated - mainly due to opposition from his coalition partner, the rural-based National Party. A compromise agreement, to proceed with the sale of another 16 per cent of Telstra, has raised a new raft of regulatory issues - although it has left the way open for a full sale over three years.

New controls built into the compromise agreement, however, would force Telstra to comply with specific legislated service standards, to be outlined in a new telecommunications act. A full sell-off would be possible only if an official inquiry could prove Telstra had complied fully with the legislated service standards.

Mr Blount has described growing competition from

the government's telecoms deregulation programme as one threat to Telstra's future profitability. But the likelihood of regulatory intervention posed the largest threat, he said. Already, Telstra is facing regulators on several fronts.

Most immediate are two investigations by the Australian Competition and Consumer Commission, the government's powerful anti-trust watchdog. The ACCC is conducting inquiries into Telstra's near-monopoly local call business and into allegedly anti-competitive conduct when churning, or transferring, customers to other carriers.

Mr Blount has predicted continued strong profit growth, regardless of the group's ownership structure. But as long as the company remains in "never-never land," its fund-raising options will remain severely restricted.

A continuing programme of deep cuts in capital expenditure is likely to boost cash-flow and maintain a steady pace of debt reduction. With a net gearing ratio of 37 per cent and interest cover of 7.6 times, the company's financial flexibility is not in doubt.

Gwen Robinson

TELECOTTAGING • By Joia Shillingford

It's almost as good as being there

Technology is helping people to work and live in different countries

Forget teleworking from a telecottage. Today's teleworkers are starting to live in one country and work in another - using telecoms to cut down on travel.

John Sandifer, at billing software consultancy AMS, lives in Paris and works mainly in London and the Netherlands. Until July he lived in London, but decided to move when his landlord told him he planned to sell the house Mr Sandifer rented in Chiswick.

"We looked around for somewhere else within good commuting distance of the children's school, the French Lycée," says Mr Sandifer.

"But within our price range we would have been looking at increasing their commute to school from 30 minutes to 40 to 50 minutes. So we decided to move to Paris, where we had lived once before. Now we live in the centre and our three children have a five-minute walk to school."

Mr Sandifer says he carries his office of notebook computer and Global System for Mobile (GSM) phone with him, but when he is in London or Amsterdam he uses AMS offices. "All I need is a mobile and a power point," he says.

A typical week for Mr Sandifer is in London on Monday, Amsterdam on Tuesday, Wednesday and Thursday, and Paris on Friday.

Mr Sandifer reports to AMS in London; although the company is a legal entity in France, it has no office there. He has just had an ISDN line installed. "Now I can get on to the AMS global network from home, get on to Lotus Notes, get files from London, or connect to the internet," he says.

Mr Sandifer also plans to use video-conferencing over ISDN to keep in touch with colleagues while retaining some of the intimacy of face-to-face meetings. However, he says he would not use video-conferencing for client meetings unless the client wanted that.

He is not worried about losing contact with London-based colleagues. He says: "Nowadays there's a range of telecoms tools for keeping in touch with people so I choose what's appropriate for the situation. If a real-

time exchange isn't needed I use electronic mail." But he thinks it is critical for some face-to-face contact to be retained.

An American with dual American-French nationality, Mr Sandifer and his family are happy with their new address. He is paid in French francs and says: "As long as I'm working in Europe I'll be based in Paris. Once we thought about Paris, we thought 'why not?' Moving from Chiswick to Ealing would have been almost as much upheaval as moving from London to Paris."

Fiona Rew-Cochrane started teleworking to an office in another country for a similar reason. But instead of a forced house move, it was her employer who was moving offices. Ms Rew-Cochrane had moved from London to Amsterdam to work on an oil industry proj-

to persuade the company to agree because he already spent a lot of time travelling. Now a typical week for Mr Farquhar is to spend Monday and Tuesday in Wokingham, one or two days in one of the company's overseas offices such as Paris, Stockholm, Munich or Utrecht, and Friday at home.

"Because I travel so much, when I'm at home I start at 9am and finish at 5pm so I have more time to spend with my family."

In his village home on the edge of the Forth, Mr Farquhar has a couple of PCs linked by an Ethernet network. This is connected to a fax and voicemail. An ISDN line and Shiva ISDN router link Mr Farquhar to the Wokingham office. When he returns from a trip he can plug his laptop into the network and transfer the files he has created.

When travelling, Mr Farquhar has a PalmPilot personal organiser which, he says, is a godsend for scheduling. He also has a Windows CE palmtop PC, a Sharp HC-500, which he uses on flights in preference to his laptop. He also has a Nokia 8110 mobile phone with extra built-in data card and infrared link so he can connect to the

internet by simply pointing the phone at the laptop and dialing up.

Mr Farquhar can connect to his Wokingham office via the internet, which acts as a secure virtual private network. This means the office is a local call away from his home or from anywhere in the world. This is possible because Shiva's LanRover VPN gateway box sits in the Wokingham office at the point where Shiva has a company connection to the internet.

"It's been a big help working for a company that specialises in remote access products because I'm not a gadget person and haven't had to make lots of decisions about what technology to use," says Mr Farquhar.

"The benefits of my working arrangement are that I have a lot of flexibility over how I organise my schedule. And our parents, who live nearby, can be more involved with our child, which is why we moved to Scotland three years ago. The drawbacks are that I've been less involved with my wife's current pregnancy than I was with the first one. It seems to have lasted only two-and-a-half months because I've been away so much."



Keeping in touch: Colin Farquhar calls into the office

PROFILE Equant

IPO to fund network expansion

Global data communications are booming, and the big carriers are rushing to upgrade their networks to cope with the data explosion. Smaller data networking companies have reason to worry, but not Didier Delepine, president of Equant, who hardly has the look of a man about to be crushed by giants.

Flash with funds from Equant's initial public offering (IPO) in July, he talks enthusiastically about the company's own ambitious network upgrade that includes buying a big 155-megabit link on a new transatlantic cable.

Equant, which claims to operate the world's most extensive data network, usually leases links to carry the data of its 600 customers, which are mostly multinationals. But the amount of data carried soared almost 200 per cent in 1997 and Mr Delepine says it is increasingly difficult to lease extra capacity. So Atlanta-based Equant, whose revenues last year were \$529m, has chosen to build its own network, starting with the transatlantic link and joined next year by dedicated networks for

Europe and the US.

Almost two-thirds of the \$645m that Equant planned to raise from the IPO will go to buy international network capacity. "I don't believe that you have to own your network resources, but sometimes there are overwhelming advantages," says Mr Delepine.

One advantage is substantial cost savings as Equant paid \$14m to buy the 155-megabit link outright - previously it was paying \$4m each year to lease a much smaller 45-megabit link.

With arguments such as this Mr Delepine has persuaded Wall Street to invest in a company which, outside the data networking industry, is not well known. "You cannot survive by being the best-kept secret in telecommunications," he says.

Equant started life in 1949 when leading airlines created a Co-operative organisation - Sita - to provide communications for the air transport industry around the world.

In the late 1980s, Sita started seeking "non-captive" customers for its network, and this side of the business, which became

Equant Network Services, has grown much faster than Sita's traditional customer base. Sita and Equant jointly own and operate the network for their respective customers.

Prior to this year's flotation, the Sita holding company also took the name Equant to "unify and strengthen the Equant brand". More than half the data carried in 1997 still came from Sita members, although the ratios have since reversed. Critics saw the rebranding exercise as an attempt to disguise this heavy dependence on airlines - an industry notoriously vulnerable to economic downturns - and play down the company's less attractive businesses, such as its sprawling services arm, whose revenues have stagnated.

Equant has embarked on a restructuring programme to increase revenues and poor profitability of this division, now called Equant Integration Services. The headcount has been cut and the strategy shifted from supplying airlines with telecoms equipment and maintenance - its original role - to providing higher-margin services.

Mr Delepine agrees that Equant's IPO proceeds will be used to regain a technology edge by developing new products, particularly ones based on the internet protocol (IP) to link corporate intranets around the globe.

Another new area is

Equant Integration Services looks unattractive when compared with the Equant Network Services division, whose revenues almost doubled in 1997. But he believes synergies can be found. "In more and more cases there is a change to leverage solutions between the two divisions," he says.

Since last January, when the two companies started to work more closely together, the percentage of customers shared by both divisions has grown from 5 to 11 per cent.

Equant was one of the first carriers to allow multinationals to link locations globally using frame relay - a high-speed data networking protocol - and it claims to offer the most extensive such network with connections in more than 75 countries. However, its early lead has diminished as at least a dozen carriers now offer frame relay globally.

Around one-fifth of Equant's IPO proceeds will be used to regain a technology edge by developing new products, particularly ones based on the internet protocol (IP) to link corporate intranets around the globe.

Another new area is

products to carry voice alongside data traffic. Mr Delepine claims these will allow multinationals to talk to branch offices around the world as easily and clearly as if they were internal extensions. He says cost savings of up to 70 per cent can be achieved over dialing through the conventional telephone network.

The only global alliance that may cause Mr Delepine to lose some sleep is the recently-announced venture between BT and AT&T to pool their international activities. "You cannot minimise the power of these two companies, and I am quite certain they will succeed in some areas," he says.

Although both BT and AT&T are today best known for voice telephony, they and other big carriers are investing heavily to attack the booming market for international data network services.

It is an open secret that IBM is seeking to sell its global networking division. "IBM is not sure that it wants to stay in the data networking business. We are," says Mr Delepine.

Geoff Nairn

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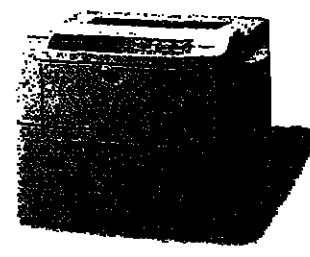
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INTELLIGENT NETWORKS • By Philip Manchester

An extra layer of control

Accessibility helps to create new systems quickly and at lower cost

When technologists apply the word "intelligent" to the fruits of their labours, it is best to be wary: what they really mean is "clever", "smart" or "adaptable". Telecommunications networks are the latest in a long line of technologies now being referred to as "intelligent": what they really are, of course, is "adaptable".

Traditional telecommunications networks used "hard wired" switches to make

connections. It was difficult to re-route calls to other numbers, and it was impossible to build in extra services to combine voice and data or to handle multimedia content. But digital computer technology now makes it possible to programme the switching logic in a network using software - in the same way one instructs a PC or a mainframe computer.

Beginning in the mid-1980s, networks have grown increasingly "intelligent" - in the sense that they are now much more adaptable.

Intelligent networks introduce an extra layer of software control, accessible both to the operator and to the end user. When a telephone

call arrives at an intelligent switch it can be suspended and instructions invoked to process the call.

It means, for example, that calls for a toll-free number can be diverted to other numbers specified by the service subscriber. Calls to an office telephone can be re-routed automatically to a mobile telephone. The intelligent switch could also set up a dual connection, combining the voice traffic with an internet link.

The accessibility of intelligent networks should also enable businesses to create new service applications quickly and at a lower cost. Services which link voice and data communications or make use of multimedia are examples.

"Intelligent networking technology is the basis for many new applications and what we are calling 'killer services'," says Per Jomer, vice-president and general manager of the network intelligence group at Ericsson, the Swedish telecoms equipment manufacturer.

"This covers everything from the convergence of fixed and mobile communications to cashless calling services and call centres. What they have in common

is how they bring control of the network to the end customer. They can go in and make changes - re-route calls to other numbers and the like."

Far from being only a technological push, however, intelligent networks have been born out of a demand. Businesses need technology that can adapt quickly to changing business conditions; intelligent networks enable new types of telecommunications services and applications which could offer cost-effective ways to compete in the global market.

Call centre applications of intelligent networks have the highest profile at present. Financial institutions have derived enormous benefits - in the form of cost-cutting and market expansion - from their use of call centres. Manufacturing and retailing are following, seeing opportunities to use call centres based on intelligent networks in marketing and sales support.

Deregulation and the changing structure of the telecommunications industry has helped to fuel the demand for intelligent network technologies. Bill Joel, European vice-president for

courier networks at Nortel, says: "There are three drivers - economics, productivity and regulatory. Call centres come out economics and productivity - they are ways of improving efficiency. Regulatory issues - such as like being able to select your own arriet, number portability and equal access are driving the creation of services."

Demand for intelligent networks is certainly buoyant. A report published last year by UK market researcher Schema forecast a trebling in annual European revenues for the intelligent network services to \$15bn by 2002. Ericsson's Mr Jomer points to figures from Ovum, showing 20 per cent annual growth in demand for the equipment to power intelligent networks "We are actually growing ahead of the competition at 40 per cent, and the demand is coming from across the telecommunications market - from incumbent suppliers such as BT and AT&T, and from cellular operators," he says.

Schema's report notes that cumulative investment in the equipment needed for European-based intelligent networks between 1996 and 2002 will add up to \$1.5bn, and confirms Mr Jomer's



Per Jomer: 'Growing ahead of the competition'

assertion that the source of demand is spread widely. Some see this as a source of tough competition and even conflict between incumbent operators and newcomers.

"It's about telecoms democracy against telecoms

revenue. But they face challenges all round from mobile operators and companies such as Level 3 and Quest laying down fibre optic backbones."

He says the newcomers have an advantage over the incumbents. "These companies have better software skills than the telecommunications companies and they are more commercially focused. Telecoms companies are not big in call centres, for example, and yet the call centre is becoming increasingly sophisticated - linking in the internet and bringing in multimedia. Those coming from the computing side are much more competitive. BT in the UK, for example, can compete, but it needs a different business model."

BT - and its rivals - will have little choice; the trend is for telecommunications networks to grow increasingly intelligent or, more properly, "soft". Researchers at Nortel, for example, are working on prototype networks where all communications traffic - voice, data and video - travels along a single wire. They are also talking about systems that would constantly negotiate the best carrier tariff and service quality for a long-distance call using intelligent "agent" software inside the network.

CASE STUDY Directories

Ericsson addresses a problem

While call centres and call re-routing are the highest profile applications of intelligent network technology, they are by no means the only ones. Universal directories - where an enquirer can obtain an email address or a telephone number from a single source - rely on intelligent networking to connect to directory databases.

Deregulation and greater competition have brought costs down and offered users more choice. But the proliferation of new services and suppliers has caused problems. One is directory services.

In days when telecommunications was limited to telephones and, usually, a single national supplier, there was only one directory administered by the supplier. But now there can be many suppliers, each offering a range of services with different ways of identifying service users. Where once we might have had a work telephone number and a home telephone number, we now have mobile telephone numbers, email addresses, perhaps even a web page address. The result is a proliferation of unlinked directories.

Ericsson, the Swedish telecoms equipment builder, has been working with the Swedish University network to find a solution - to create a national email directory. The aim is to create a nationally available directory service accessible through the worldwide web (www).

"The idea is that you can access all of the internet providers' (IP) directories, regardless of the directory format or location," says Per Jomer, vice-president and general manager of the network intelligence group at Ericsson. "We have built a special-purpose server called a Direct Access Gateway (DAG). It holds a master index of directories and can translate from one format to another."

The project is sponsored by the Swedish government and has been under development for two years. "It is part of a wider government-backed project to create a new technology infrastructure for Sweden, call it Tele3 with technical responsibility for the scheme. The participants in the project saw there was a need for some form of central directory. We set out to create a specification that would deal with the standards and format schemas that IPc are using."

"The project set out to solve three specific problems in creating a white pages directory service. These are protocol translation, to handle the differences between directory standards, schema translation, to cope with different formats, and indexing to locate services quickly."

The specification covers the protocols to access the four main directory standards - including versions 2 and 3 of the Local Directory Access Protocol (LDAP) - and defines a method for translating between different schema formats.

"Even if you use only one directory standard,

you can have different schemas," says Mr Fallstrom. "In one, for example, you might just have a name as a single item. In another you might split the name into given name and family name."

The specification also required solution to the problem of indexing directories. "Common directory standards such as LDAP and X.500 are hierarchical so there is a problem knowing which part of the directory to go to," he adds. "Any solution has to cope with this."

"Once the specification was complete, we put out a request for proposal document. Swedish University Network (Sunet) and Ericsson were selected as the project participants. Sunet administers the network and Ericsson is the equipment supplier."

DAG, now under trial, accepts queries in all commonly-available protocols and interrogates an index to find which directory servers might contain relevant information. It then accesses all the identified servers, using the protocol appropriate to each server, and collates the results for the transmission to the enquirer. DAG also contains charging interfaces, allowing flexible billing.

The new DAG service works by acting as a gateway to all internet operator and service providers' directories. This gives internet users instant access to all the contact details of Swedish users of the net. It includes mobile and fixed telephone numbers, email addresses and www sites - even though the information may be in different formats and held in different places by different organisations.

Although the primary purpose of the project is to create a national directory, Mr Fallstrom does not rule out the possibility of extending the service beyond national boundaries. "We are testing the service and we want to spend a year checking that it can perform - that the indexes don't get clogged up or grow too complicated."

DAG is claimed to be the first service of its kind to offer a single point of access to directory information and, according to Ericsson, it opens a new range of business opportunities.

"Since the release of DAG in June it has generated much interest from both the telecoms and datacoms markets," says Ericsson's Mr Jomer.

"With the explosion in the use of email and www addresses, clearly there is strong demand for a product that can find a complete set of contact details within seconds and at the touch of a button."

The project has attracted attention elsewhere. It has received recognition from the Internet Engineering Task Force as an example of how to implement a protocol translator for directory services. The project is supported by the Swedish Foundation for Knowledge and Competence Development (KK-stiftelsen).

Philip Manchester



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Handwritten signature: "J. Neuteboom"

ELECTRONIC COMMERCE • By Geoff Naim

Revolution is gathering pace

Vendors are rushing to promote internet call centre technology

The call centre has transformed the concept of customer service, and the revolution may soon extend to electronic commerce with a new breed of internet call centres.

By linking a call centre to a company's website these systems can handle enquiries irrespective of whether they arrive by phone, email or fax. The aim is to reduce the often high cost of staffing today's "full service" call centres by encouraging customers to use the website to access information and perform transactions.

Call centre agents will still

be needed, but in fewer numbers as they only become involved in an internet transaction when the customer wants to talk to an agent and hits a "call me" button on the web screen.

Datamonitor, an IT consultancy, predicts web technology could become the next source of growth in the call centre industry. However, it warns that using the internet for initial customer contact is today far from common, particularly outside North America.

The consultancy's figures show that web technology contributed just 2 per cent of the \$422m spent on call centre technology in Europe last year, and the share will only grow to 3 per cent by 2002.

The market may not be ready but vendors are rushing to promote internet call centre technology, which

they claim offers the best of both worlds: the low cost and global reach of the internet with the option for customers to talk to a friendly voice if desired.

"There is a grey area in customer service between the traditional full-service call centre and the totally self-service internet," says Laura Di Sciullo, managing director for internet call centres at Lucent Technologies.

In financial services, for example, legislation may require the seller to demonstrate that the customer was adequately informed - something that is difficult to do if the financial product is bought "off the screen" from a self-service internet site.

With an internet call centre, an agent could automatically telephone the applicant to check their suitability before the online sale was completed. Agents would



Traditional call centres often have to carry high staffing costs

have the details of the online application duplicated on their screen and, in the case of an existing customer, could call up a customer profile or record of past transactions.

Another application is online retailing. One of the big problems of shopping on the web is that when the customer has a query there is no easy way for the retailer to answer it.

"Online merchants need to provide a comfortable shopping experience, and that often means giving them direct access to a real live

person," says Craig Danuloff, president and chief executive of iCat, a US company that sells online catalogue software.

The company was one of the first to allow online stores created by using its software to incorporate "call-back" links to live customer agents. The technology is supplied by NetCall, the UK-based internet call centre specialist. Micron Electronics, a US computer retailer, plans to use Lucent's internet call centre technology to improve its web store.

The existing site requires the customer to choose from a list of computer models and options; while the program does check to ensure a buyer's choices are valid, there is scope for confusion. Micron thus displays a free-phone number on each web page so customers can call for help in choosing their system.

The big drawback with this approach is that it forces a halt in the buying process as customers with just one phone line will have to drop their internet connection to call the human agent. They must then

explain their problem over the phone and at the end of the call reconnect to the website... and perhaps restart the buying process from scratch.

Not surprisingly, the frustrated customer may wonder whether the entire process would not be more easily performed just using the phone. However, that conflicts with the retailer's desire to use the internet to automate transactions and save costs.

Ms Di Sciullo says it costs from \$3 to \$4 to handle a transaction using a full-service call centre and just 1 to 3 cents if the customer does the transaction over the internet. The new breed of internet call centres aims to retain the low cost of web-based transactions by automating the buying process as far as possible, but also ensure that a human agent can be contacted if needed.

Micron Technologies plans to use Lucent's technology to add "call me" buttons to its web pages.

As most consumers only have one phone line, the Lucent technology has been designed so that it can

simultaneously handle a voice call and the ongoing internet connection on a single line, thus ensuring the customer does not need to drop the internet connection. To do this, the customer needs a modern PC with microphone and speaker as the voice conversation is handled by the computer rather than a conventional phone.

Users of older PCs lacking this feature can instead communicate with a call centre agent by typing messages in a window on the screen. Alternatively, they can ask for an agent to phone in a few minutes, giving them time to exit the internet.

The combination of the internet and call centre technologies opens up many possibilities. Lucent believes the "call me" button could soon be used to hold internet video-conferences with call centre agents.

But Datamonitor cautions it will be many years before web-based call centres are widely used for mainstream customer service applications as the number of consumers with internet access remains small.

DATA COMMUNICATIONS • By George Black

Solutions sought as data traffic heads for gridlock

Bottlenecks in the local loop constitute the biggest problem

Like London's M25 orbital motorway, global data networks seem to be approaching gridlock. The more capacity is increased, the more traffic grows. In both cases solutions are urgently needed, but all the proposals are controversial.

Data traffic is already exceeding voice traffic in the US by some measures, and soon after 2000 data will make up the great majority of calls in many countries.

Some experts think the data traffic congestion problem can be overcome by new technology, which they claim is moving as fast as users' requirements.

Others say congestion will last for many years because there are serious problems in strengthening the weak links,

especially in the local loop, the "last mile" of the network.

In the long-distance network, development is moving at a fast pace. The leading carriers are building their own global optical fibre networks so that they do not have to rely on contracts with others who may have less reliable backbones.

One of the key technologies for carriers is synchronous digital hierarchy (SDH), a transmission system that enables networks to be built more quickly and maintained more cheaply.

SDH is becoming a standard for new carrier networks internationally.

At the core of networks there is a general shift to "cell-switching" technology which should unlock much higher performance. The most powerful forms of cell-switching are ATM (asynchronous transfer mode) and Frame Relay.

ATM is generally becoming favoured by carriers and some of the largest corporations which

are building their own wide-area networks. Frame relay is the fastest-growing area for large businesses generally, according to Alan McLeod, UK managing director of Infonet, one of the leading private network operators.

At the local level, progress is a lot less rapid. "Bottlenecks in the local loop are the biggest problem for rolling out electronic commerce," says David Harrington, director-general of the UK Telecommunications Managers' Association.

There has been a widespread move among large businesses from analog to digital access systems, particularly from modems to ISDN (integrated services digital network).

But in some countries, such as the UK, ISDN has been slow to take off, especially among smaller businesses and home users, because of high prices. It is gradually being more widely used, but needs to become a lot cheaper.

Those who still rely on modems often have old machines with inadequate power to exchange data in the volumes now needed.

In the next year or two services based on ADSL (asymmetric digital subscriber loop) technology and its variants will be offered as an alternative method of network access, says Howard Hines, senior technical manager in the data and information services division of BT, the UK's principal carrier.

ADSL is a system which can deliver data to the office or home across existing copper wire instead of requiring fibre. This could speed up access for many users from the 128 kilobits per second typical for ISDN-2 to around six megabits.

But David Harrington warns that much of the copper in the local loop is old and in poor repair, so is likely to be incapable of supporting heavy network traffic. The further from the switch it is, the weaker will be

the connection.

For this reason he thinks it could be many years before ADSL can be deployed as a nationwide network. Other alternatives, such as radio or satellite delivery, could get there first.

Another of the big hopes for spreading broadband technology is the cable modem, the device favoured by cable operators for capturing the home market.

Sales of these devices have begun to rise, but the technology may not prove to be a panacea. Mr Harrington says performance could deteriorate substantially when cable modem users are sharing bandwidth.

New technology may help to ease congestion by improving the construction of applications, which are ever more complex and hungrier for bandwidth. This trend can be partly reversed by adoption of "activeweb" or "active networks" techniques of sending data in more economical ways.

The use of the Java language and of similar features in Microsoft's Windows NT operating system will enable internet content to be sent in a streamlined form which uses less network capacity.

As the network becomes the critical resource, applications developers will be under pressure from IT managers to adopt activeweb or similar technology.

A combination of ATM, ADSL, activeweb techniques and the near-ubiquitous IP (internet protocol) could help to prevent data gridlock and gradually ease the adoption of electronic commerce.

The main concern is cost. The installation of fibre may be getting cheaper, but most of the other elements of the networks, which are now principally software, are becoming more expensive.

Few companies can afford to provide such facilities for themselves, and most will be reliant on outside suppliers. Frequently users feel they are being over-

charged by their suppliers for these resources.

European users complain that their businesses are disadvantaged against their US competitors by the high costs of data communications, sometimes 10 times as much or even more, they claim. One of the dangers is that users may decide to shift their data communications, for example their web sites, to the US.

Even the national carriers are daunted by the scale of the investment that will be needed to support the next generation of the world's communications infrastructure.

This is one of the main reasons for the present wave of mergers and alliances among international telecommunications companies, according to the investment banking group Broadview Associates.

It helps to explain the recent deals between BT and AT&T, Bell Atlantic and GTE, Nortel and Bay Networks among others.



Once that train pulls out of Waterloo, every empty seat is a wasted opportunity. So Eurostar was determined that its call centre should be as efficient as possible.

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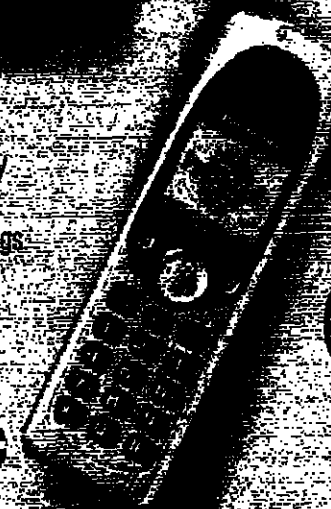
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VALUE-ADDED SERVICES • By Joia Shillingford

Mobiles are becoming all-in tools

Text messaging and dictation are among office aids on hand for the traveller

From footie to FTSE, mobile phones offer all sorts of value-added services. You can check the latest football scores or the performance of the FTSE 100, or even dictate messages. In fact, mobiles can do almost anything that fixed phones can do. But value-added services are more important to the mobile market precisely because the user is on the move and not near office services.

Cellnet's Dictation Line enables people on the move to dictate letters, memos, electronic mail, faxes and text messages by dialling 1222 on their Cellnet digital mobile phone.

This could be a win-win situation for the user and the hotel, says Mr Owen. "The hotel, instead of missing out on fixed-line revenues whenever the guest makes a call from a mobile, would gain some revenue. The guest could be offered a special, lower, mobile tariff when using one of the group's hotels."

Mr Owen believes mobiles will be used to pay for all sorts of services because knowing which phone number the call comes from adds an extra layer of security. Already mobiles can be used for online banking, or as mobile wallets for buying soft drinks at a vending machine (at, for example, Helsinki airport).

Other value-added services include voice-activated dialling (VAD) for mobiles. Vocalis the UK-based speech-recognition telephony company, is carrying out research into VAD for car drivers so that it could be used not just to make calls

Importance, too.

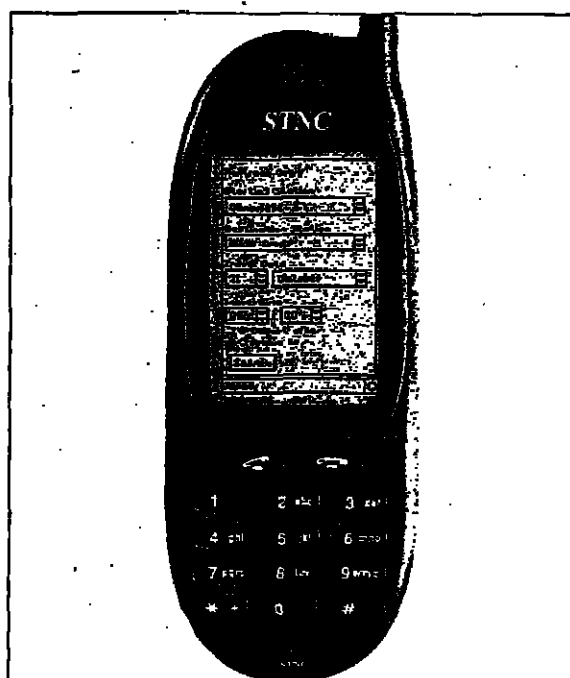
Ericsson, the Swedish telecoms equipment company, offers a service that enables a cellular operator to provide an all-in-one fixed and mobile telephony service. Users need only one number for both a fixed and a mobile phone. Calls go to the fixed phone and if there is no answer are routed to the mobile. If that is also switched off the call is routed to the mobile's voicemail. Cellnet's Follow Me service memorises the numbers the mobile owner is usually on and tries them.

Frank Owen, an independent telecoms consultant, expects location-based, value-added services to become popular. For example, if a mobile is combined with a global positioning system (GPS), a service provider could charge less for calls made at, say, an hotels group.

"This could be a win-win situation for the user and the hotel," says Mr Owen. "The hotel, instead of missing out on fixed-line revenues whenever the guest makes a call from a mobile, would gain some revenue. The guest could be offered a special, lower, mobile tariff when using one of the group's hotels."

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STNC's HitchHiker software allows connection to the Internet

but to re-route them or call up complex information services.

Alarm notification is offered by Alcatel on mobile phones or Deet (digital enhanced cordless telephony). The system, which requires an Alcatel server, computer and switchboard, is used in a hospital in Belgium to alert key medical staff when monitors show a change in a patient's condition.

Orange and Vodafone, two of the UK mobile phone operators, offer sports and other information. Orange says that along with virtually any sports results it can also provide financial information on the main financial indices and even on futures contracts.

For the truly mobile traveller there are services that will provide access to a telephone from just about anywhere. By using a special \$1,000 dual-mode handset, Cellnet's customers will be able to phone from desert (or elsewhere) using the ICO global mobile network.

Once back in more populated areas, the phone will switch to the nearest Global System for Mobile (GSM) network. The service will be available from 2000 and cost an average of \$1.95 a minute when using ICO.

At present, mobile net-

work operators are competing mainly on price packages, coverage etc. But value-added services could become a key differentiator, says Alex Nourouz, a consultant at London-based researchers Ovum.

Today Cellnet's Genie service integrates the Internet with mobile telephony to provide tailored information to mobile handsets including personal finance, share, sport and entertainment information. UK company STNC says its HitchHiker smartphone software can equip most mobile phone users existing equipment for the Internet.

There is even a service available from US-based applications company Elation that tells you if you have a call waiting when you are busy on the Internet.

Longer term, developments will give mobile users a virtually unlimited supply of value-added services. Evolving standards for connecting mobiles to the Internet such as personal organiser Paion's EPOC operating system company Unwired Planet's Wireless Application Protocol browser should make this easier.

In fact, if you stretch value-added services for mobile to include mobile data, mobiles will be able to do far more than fixed phones.

INTERNET CONNECTIONS • By Michael Dempsey

Convergence a reality

Keeping up with a revolution has become a challenge for individuals

The constant shifting web of alliances and sudden mergers within the telecoms sector presents a confusing spectacle. The much-trumpeted theme of convergence, with the distinctions between the computer industry and the telecoms sector blurring and then disappearing, has become a reality.

For individuals, staying up to speed with this permanent revolution has become a challenge. And telecoms suppliers are beginning to find their customers react badly to a perceived lack of certainty in the market. Meanwhile, the new names in the business face an unpredictable future.

The arrival of the Internet as a viable international communications mechanism has seen sales figures rocketing at small high-tech suppliers.

Demand for Internet connections means ever-expanding networks buying hubs, routers and switches. These are all terms for the dedicated computer hardware that takes and directs digital signals. A small routing switch in an office can cost \$1,000; large digital switches resemble the most powerful computers and can carry a similar price tag in the \$1m dollar realm. But the long-term prospects for these overnight success stories is uncertain.

Some analysts are already talking about the market for Internet components approaching saturation point. At Schema, a UK-based telecoms consultancy, director Robin Bosworth claims that by 2003 most European businesses will have established connections to the Internet. "In Scandinavia, Internet penetration in business is beginning to approach 70 per cent of the market," he says.

The prospect of customer numbers dwindling while

the main players such as national PTTs and associated alliances reassert their dominance does not frighten Stephen De Witt. As president and CEO of Cobalt Networks, Mr De Witt runs a two-year-old, privately-owned organisation owing its existence to \$3.5m of venture capital and cost-conscious technology that claims to offer cheap and easy processing of Internet connections.

Cobalt sells technology that is bright blue in colour and designed to share a look and feel with consumer electronics. Its square, flat RaQ Internet server sells for \$1,000 and is cheerfully described by Mr De Witt as "the size of a pizza box". He is unashamed about pushing the product on price benefits. "You can stack 40 of these in a rack eight feet high and they will consume a nominal amount of power. You'll spend more money lighting the room you keep them in than you will on electricity for the servers," he says.

Mr De Witt's customers are the Internet service providers (ISPs) whose appetite for hardware is still undimmed. But both France Telecom and the Japanese PTT NTT have recently invested in Cobalt, putting \$650,000 and \$350,000 respectively into the company. Mr De Witt explains that while both companies have bought Cobalt products, their commercial interest is in expanding the Internet sector. "If the telcos allow the ISPs to grow then the demand for more services must produce growth at the telcos."

It is this prospect of unbridled growth that makes Mr De Witt cautious about predictions of a slowdown in the Internet components market. Asked about the survival prospects for a small, privately-owned concern in this huge global market Mr De Witt outlines what he terms Cobalt's Exit Strategy. "We may go public and then look for a larger partner, or seek out a larger partner first."

Colt Telecoms is a five-year-old company with 1,200 staff, a turnover of \$81.5m and 5,500 business customers. It has now taken its philosophy of providing high-quality digital communications via fibre optic links across Europe, with a backbone based around London, Frankfurt and Paris aiming to serve 24 European cities by 2000.

Jonathan Watts, managing director, admits that keeping in touch with the pace of change in his sector is tough on Colt's staff. "We have just spent a day off-site with our staff running focus groups on the latest developments. We want to make sure that our technical and product people are plugged into industry developments."

Mr Watts sees the telecoms industry as confusing many potential customers by highlighting technical achievements. "Customers do get bewildered. They want a service that's functional, though often they only need half of the functions the manufacturers throw at them."

If Mr Watts is cynical on high-tech overkill he's pragmatic about the long-term future for his business. "There will be consolidation in this sector. I have no doubt about that. But the companies that survive and remain independent will be those which evolve and supply what the customer wants at the right charge."

He thinks the recipe for success is to be realistic about Colt's position. "You won't find us trying to compete with BT in areas where they are visibly very strong."

Global One is the archetypal complex telecoms alliance. Comprising elements from Deutsche Telekom, France Telecom and the US Sprint organisation it began operations in January 1996 and now boasts revenues of \$1.1bn, with 1,400 switching centres outside the borders of its three national hosts.

Bob Givens, Global One's vice-president in Europe, claims that the relative stability of this partnership serves to reassure customers. He recognises that the constant flux in telecoms has become an issue with the multinational business

customers that Global One targets. "Stability is one of our key selling points. We are talking to top level people and they are tired of having new telecoms partners leading to changes in the way they do their business."

Mr Givens' point is that telecoms has become so crucial to corporate strategy that a sense of uncertainty in this one industry can undermine the business processes of its customers. "All of the changes you've seen over the last few years have been very costly for our customers, he says."

The recent \$9m acquisition of Bay Networks by Nortel underlines the way telecoms providers are breaking down barriers with computer systems houses. Bay is a \$2.4bn, 7,000-strong company built on computer networking experience. Nortel has 10 times Bay's staff and turnover of \$15bn. But it decided that its own data networking operation mirrored Bay's operations in selling data networks to large corporates. And Bay offered expertise in the key emerging market of Internet telephony.

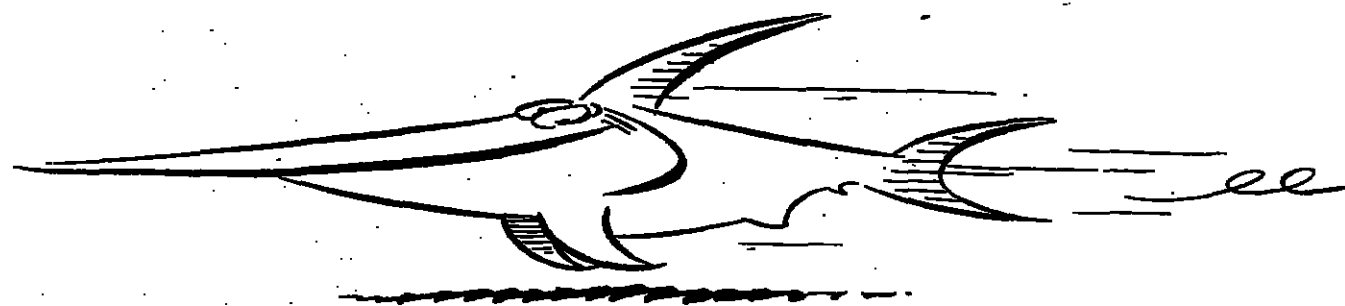
Malcolm Collins, managing director of Nortel Carrier Packet Networks, and Peter George, president of Nortel's Bay division for Europe, agree that customers are beginning to demand a simple structure in their dealings with the telecoms sector. "The themselves are forcing the move towards consolidation. They want to go to one vendor," says Mr Collins.

As a senior Bay executive, Mr George recognises that his customers want "end-to-end voice, video and data". Nortel and Bay came together as a pre-emptive strike says Mr George, the outside world is tired of hearing vendors emphasising their niche capabilities.

"We've learned that being internally focused is a formula for failure with the speed this market works at."

If Mr George is right, the market perception of too many players is beginning to have a real impact on corporate thinking.

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REVIEW OF THE
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Wednesday September 30 1998

PART 2

Deregulation overseas has led to companies shifting their focus. Richard Waters reports US carriers seek leading role on the world stage

The largest US telecommunications companies are getting ready to assert themselves on the world stage.

For the past two-and-a-half years, American carriers have been looking resolutely inward. The 1996 Telecommunications Act triggered a merger-driven scramble to assemble a stronger domestic foothold ahead of the wave of competition that was expected to follow - a wave that has yet to arrive.

Now, with a handful of giant domestic acquisitions awaiting completion and a small group of US super-carriers taking shape, it seems that the rush to merge at home may have reached a temporary watershed. Partly as a result, the carriers say they are now ready to pay more attention to the rest of the world.

"There's no question there's been a huge focus on domestic assets and strategy since the Telecom Act," says John Killian, head of international operations at Bell Atlantic, which has itself bought former neighbour Nynex and recently agreed to a merger with GTE. International operations are likely to get more attention now, he says. "This industry is going global - our customers are going global."

Part of the reason for that shift in focus rests on the greater opportunities that are opening up with deregulation in many foreign markets. "We really believe that growth overseas will exceed growth domestically," says Mike Maslin, head of GTE's international operations.

Until now, most American carriers have treated their foreign holdings largely as portfolio investments, places to park their excess capital to generate a return for shareholders - though the Bell companies have also, typically, assumed a degree of management control over these foreign entities. The returns have, in some cases, become substantial: GTE, for instance, expects to earn \$450m after tax from its foreign holdings this year, twice the level of three years ago.

Ameritech, on the verge of being bought by SBC, has invested \$60m in Europe and is "in the process of creating a European network" by tying together its "hubs" on the continent, says Richard Notsbaert, chairman. "Having a network in Europe will be critical," he adds.

It will take a big leap to turn disparate foreign holdings into coherent international networks. That, though, is what the American carriers say they now plan - helped, in part, by the domestic mergers, which are bringing together larger pools of foreign holdings. "Ultimately, we see it all knitting together," says Mr Killian at Bell Atlantic. This drive has been fuelled by the gradual breaking down of the traditional structure of international settlement rates and access fees between carriers - a structure which has been highly profitable for all concerned, except customers. This has brought very different responses.

At one extreme, MCI WorldCom has set out to construct local networks in the biggest business centres to keep control of all the traffic of its large international customers. According to John Sidgmore, vice-chairman, control of end-to-end networks cut costs (reselling capacity on someone else's network, never a very profitable option, is no longer necessary). It also raises quality

by putting one carrier in control of the entire service, and makes it possible to develop new, more profitable products and services.

MCI WorldCom's two biggest domestic rivals in the long-distance business - AT&T and Sprint - have opted instead for alliances with foreign carriers. The history of such relationships is not encouraging. Both Concert (the former alliance between MCI and PT) and Global One (involving Sprint, France Telecom and Deutsche Telekom) have delivered less than their founders had hoped, and Global One is undergoing a revamp. "It is very difficult to get a large telecom company to do anything: to get two or three to do something together is virtually impossible," says Mr Sidgmore at MCI WorldCom.

AT&T claims that its joint venture with BT will be different. By merging their foreign businesses in a joint venture company, this will create a closer union than the looser alliances that have typified international partnerships in the past.

The AT&T/BT link is certain to face a concerted campaign from rival carriers. Like the planned link between British Airways and American Airlines, it would bring together powerful national communications companies on both sides of the Atlantic, putting rivals at a disadvantage - if it could be made to work effectively.

That may eventually precipitate firmer links between US and foreign carriers. But for now, other American telecoms companies say, an AT&T and BT tie-up would not pose an insurmountable threat - in part because deregulation around the globe is creating more opportunities to form looser correspondent relationships with foreign carriers.

Within the US, meanwhile, the pace of competition has accelerated - even though the regulatory gridlock that followed the Telecom Act has bedevilled the opening of the country's \$100bn local markets.

It is most clearly evident in the long-distance and the wireless markets: long-distance rates are now as low as 5 cents a minute, while some wireless carriers charge only 10 cents a minute, with little distinction left between local and roaming calls.

The local market that was the target of deregulation in the Act, however, remains largely frozen. Local carriers have used this hiatus to consolidate their hold. SBC Communications, which has already bought Pacific Tele-tele and Southern New England Telecom, will control around 60m access lines once its acquisition of Ameritech is completed - around one-third of all local lines in the country.

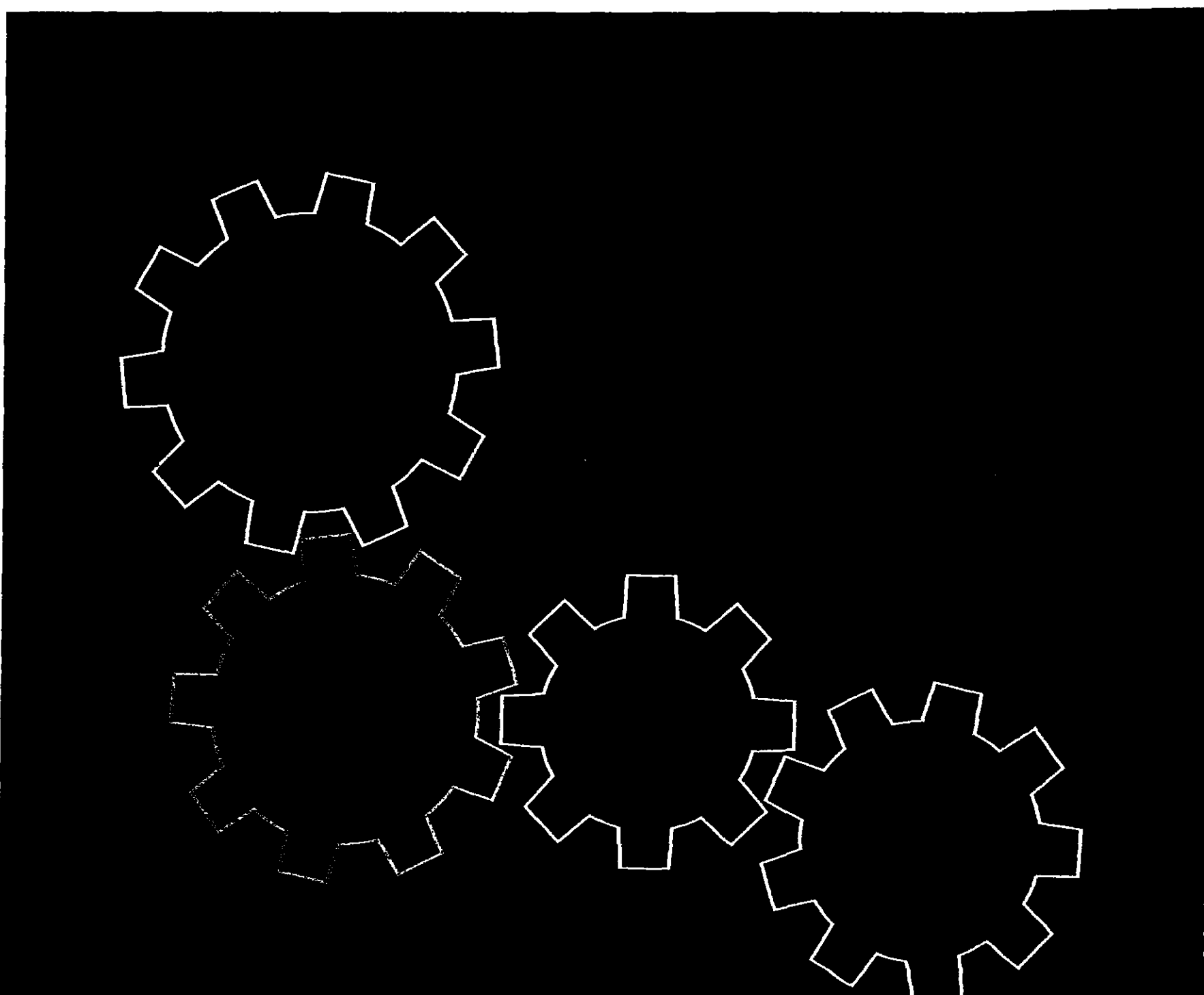
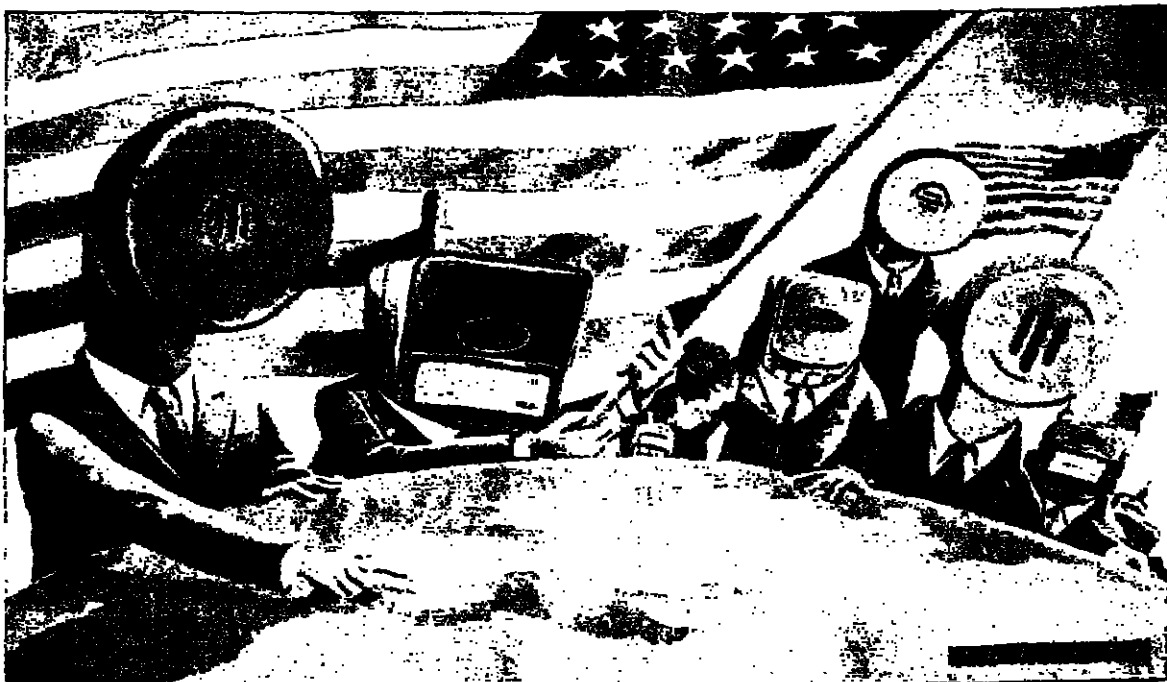
Bell Atlantic and GTE, once they merge, will control roughly the same number. Of the original group of Baby Bells, only BellSouth (with 23m access lines) and USWest (16m) have remained aloof from the mergers. With such a strong grip on their local markets, it is not surprising that the Bells have dragged their feet on opening up their networks to competition.

With two mega-carriers dominating local access, AT&T, which still accounts for around half the nation's long-distance traffic, has opted for another route into the nation's homes: a merger with TCI, whose cable televi-

sion systems pass three out of every five households. Life as a long-distance carrier could continue to get tougher, however. Upgrading cable systems to carry telephone calls will take years and billions of dollars. And while this is happening, a new generation of long-distance carriers, employing the latest technology to create low-cost networks, are making inroads into the market of the traditional carriers. Known in the

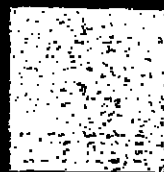
industry as the "newbies", companies such as Qwest and Level 3 claim they will be able to carry voice, data and video traffic at a fraction of the cost of established networks.

"The Newbies have the power to be quite destructive," says Mark Bruneau, telecoms consultant at Renaissance Worldwide. He adds: "The least attractive thing to be right now is one of the traditional long-distance carriers."



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Emergence of the new US super-carriers

	1997 revenues \$bn	Growth rate %	Market cap \$bn
Bell Atlantic/GTE*	54.0	6.0	118
AT&T	51.3	1.8	92
SBC/Ameritech	40.8	8.3	122
MCI WorldCom	27.1	17.3	84
BellSouth	26.8	8.0	71
Sprint	14.9	6.9	30
US West	10.3	2.4	25

* Mergers pending

Source: Company reports/FT calculations

ARCONI

GLOBAL MOBILE NETWORKS By Christopher Price

Convenient, but not cheap

Iridium targets the developing countries as its net covers the remotest spots

Making a call to and from anywhere in the world from a hand-held mobile phone has become a reality with the launch of the Iridium satellite service.

The US-based group has put 66 satellites into orbit and established 12 ground stations at a cost of around \$5bn. Its system covers the entire globe and makes possible communications with even the most remote parts of the world.

However, such convenience does not come cheap. The phones, which are slightly larger than conventional mobile models, cost around \$3,000. A call can cost between \$1 and \$7 a minute, depending on where and when it is made.

Premium prices are being targeted at business travellers and the offshore and mining industries, who it is thought will not balk at the higher tariffs.

Iridium had originally planned to compete directly with terrestrial mobile phone operators. However, the company quickly changed its strategy following the appointment of Ed Staiano as chief executive two years ago.

"I knew straight away that it did not make economic sense to compete with cellular, which would be able to beat us on capacity as well as pressure us on price," he said recently.

The company has signed agreements with more than 200 mobile operators in 80 countries. Some signatories have bought shares as part of their agreements, with larger investors taking seats on the Iridium board. The company is listed on the Nasdaq stock market.

Iridium's mobile partners sell the service on the company's behalf. They are also supposed to have responsibility for marketing, but the \$140m marketing campaign by Iridium to accompany the launch - one of the largest-

ever advertising campaigns - shows where the bulk of the marketing is likely to come from.

Subscribers will utilise their local service provider's network, switching to Iridium when they leave the signal area. Thus a call from the US to an oil rig in the North Sea may route along the terrestrial networks until the signal can get no further before going into space.

Iridium's other main target markets are the developing countries. They are among the 80 governments which have signed partnership agreements with the company, many of which have accepted discount shares in Iridium as an incentive.

The developing world is seen as an ideal opportunity because of the lack of any sophisticated telecoms infrastructure. Using a satellite-based system would enable them to bypass the huge costs of installing a terrestrial network.

Iridium is also running a charitable programme, where some calls will be as low as 30 cents a minute. Third World governments will also have an allocation of free airtime for emergency situations.

The average cost of a call in developing countries is likely to be between \$1 and \$2 a minute.

Call revenues are only one source of the Iridium's revenue stream. There will also be a paging service, which again has the capability to send short messages to pagers anywhere in the world.

However, analysts believe the group's role as a broker of roaming agreements could prove to be even more lucrative. International cellular usage is held back by the use of different technologies, and even where they are the same, too few roaming agreements exist between mobile operators.

However, because Iridium plans to have partners in almost every country, the company could act as broker and intermediary between two operators without their own roaming agreements.

In addition, Iridium's technology, situated in its ground stations, will allow it to translate between the various incompatible systems, without using the satellite service.

The three revenue streams lie behind Iridium's belief that it will be cash-flow positive by the end of its first year and profitable shortly afterwards. By 2002, it forecasts that it should have paid off its \$3bn debt and have enough funds to pay the estimated \$3bn cost of replacing all its satellites, which have a five to seven-year lifespan and are due to expire in 2005.

But by this time Iridium will be facing competition

from at least two other satellite-based systems. Globalstar, which is backed by Loral of the US, has said it would begin operations next year. ICO Global Communications, an offshoot of Inmarsat, the international satellite organisation, plans to launch in 2000.

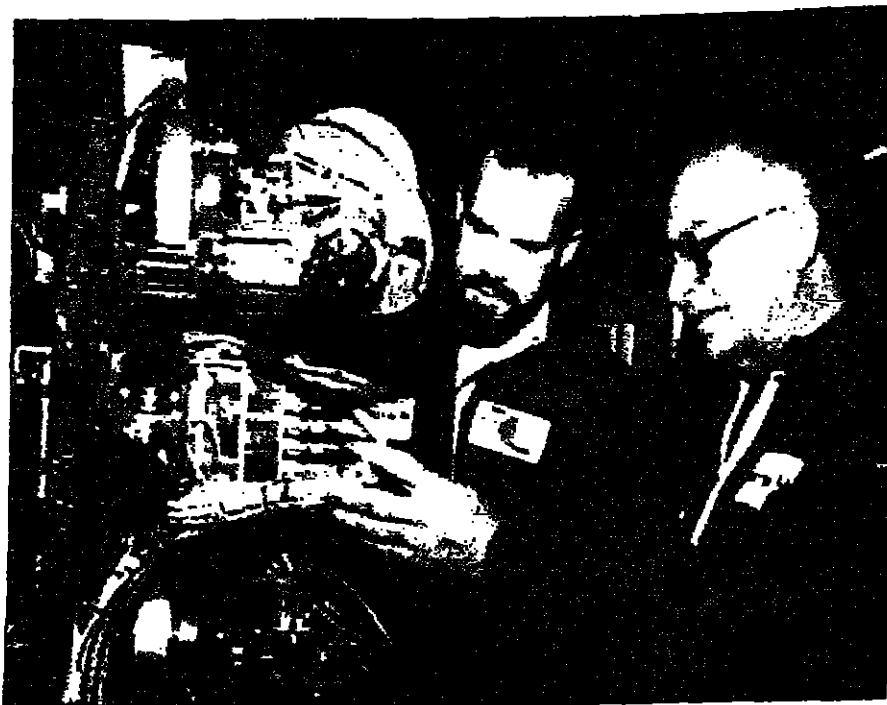
ICO, which is based in the UK, has already warned it will compete with its rivals on price. Last month it said its maximum price was likely to be set at about \$3 a minute - less than half of Iridium's premium rate. ICO also said that its phones would retail for one-third the cost of Iridium's.

Globalstar has yet to give any indication on its pricing.

However, there is considerable unease in the satellite market over the huge cost of putting the systems into orbit and whether sufficient demand exists to repay the investment.

Consolidation has been one result. Last year, ICO subsumed a rival telecoms system, Odyssey, controlled by TRW. And earlier this year, Motorola rolled its satellite system designed to transmit the internet into the rival Teledesic system. Analysts expect further mergers to occur.

The performance of Iridium will therefore be watched with keen interest throughout the rest of the satellite industry.



Technicians at Iridium, which has put 66 satellites into space

LIBERALISATION IN THE US By Mark Suzman in Washington

FCC's goal seems so simple, but...

Overseeing new laws and ruling on mergers is keeping a watchdog busy

The US Federal Communications Commission (FCC) has been transformed in recent years from one of Washington's sleeper homes for government bureaucrats to arguably its most prominent - and controversial - regulatory agency. It is a change that reflects the growing importance to the overall economy of the sector the FCC oversees.

The commission's task is relatively clear-cut. As William Kennard, the FCC chairman, puts it: "Simply stated, our goal is to promote competition and consumer choice in all communications markets."

Unfortunately for Mr Kennard and his four fellow commissioners, translating that principle into practice has proved difficult to achieve so far.

Charged with simultaneously overseeing implementation of the 1996 Telecommunications Act, ruling

on an unprecedented wave of mergers between media giants, and helping chart new domestic and international guidance on everything from connection charges to internet links, the current FCC board has had little time to catch breath since being appointed last year.

With a host of new challenges looming, political pressure from both Congress and the White House growing, and the prospect of more legislative changes to come, the pace is unlikely to let up soon. "It's been a chaotic and frustrating year," admits one FCC official. "Just when we seem to be sorting out one thing another problem comes along."

Heading the list of challenges is the task of trying to open the \$100bn local telecommunications market to competition - the central aim of the 1996 Act. To encourage the "Baby Bells" - regional companies which have traditionally had a monopoly on local calls - to allow competitors into their home areas, the Act offered them the incentive of being permitted to compete in the long-distance market.

The catch, however, was that the Bells first had to satisfy the Justice Department and the FCC that their domestic markets were open to competition. Despite repeated applications, none of the companies has yet met the 14-point "checklist" contained in section 271 of the Act that the FCC is legally required to use to assess their eligibility.

Exacerbating matters, the telecommunications industry has been engaged in a virtually non-stop succession of legal challenges to the Act, culminating in the decision at the beginning of this year by a Texas judge to strike down a key section of the law as unconstitutional. That ruling was overturned by an appeals court earlier this month, but a number of other disputes are still slowly winding their way through the courts system.

Until the legal picture is clearer, long-distance companies such as AT&T and MCI are unlikely to accelerate their attempts to break into the local market.

Proponents of the Act respond that it was always unrealistic to expect rapid progress in the individual customer market. They point

to growing competition for business users in the local phone markets over the past two years as well as the increased availability of alternatives such as wireless phone services.

At the same time, the agency has become more conciliatory towards the Bells. Earlier this year, FCC officials began working more closely with the Baby Bells to try to help them satisfy the section 271 conditions. And in August, the agency agreed to allow them to install high-speed internet connections to private homes, unexpectedly brushing aside arguments that the move would extend the companies' stranglehold on local customers.

Nevertheless, Congress - spurred on by the approach of this November's elections - has grown increasingly irritated at the lack of tangible benefits for consumers. The agency's political problems have been further complicated by the fact that Mr Kennard lacks the White House support that Reed Hundt, his combative predecessor and a personal friend of US vice-president Al Gore, enjoyed.

That has made it more difficult for the FCC to defend

issues such as the "e-rate" programme, whereby the agency planned to use surcharges on phone companies to pay for new internet links for schools and libraries across the country. After the companies mounted a successful campaign portraying the charge as a new tax on phone customers, legislators forced him to scale back the initiative.

At the same time there has been the unprecedented wave of mergers in the telecommunications industry, including proposed link-ups between AT&T and TCI, the cable company, WorldCom and MCI, Bell Atlantic and GTE, and SBC and Ameritech.

While FCC officials admit privately that process is probably unstoppable, they are very aware of criticism from consumer groups and Congress that they are in practice overseeing an era of consolidation rather than increasing competition. Mr Kennard has promised that consumer protection will be the key issue in the FCC's final decision on the deals.

Nevertheless, there are some bright spots. On the international front, the

agency has been at the forefront of pushing for more liberalised telecommunications markets worldwide. Some analysts see prospects for the FCC taking advantage of the mergers to increase its leverage with the Bells.

In approving the Bell Atlantic/Nynex merger last year, the FCC required the new company to adopt several of the pricing mechanisms that had been cast into doubt by court rulings. It is now likely to seek similar concessions from some of the other companies as a condition of approving the mergers.

But even that may not be enough to fend off changes to both the agency itself and the law which it has been charged with implementing.

John McCain, chair of the Senate Commerce Committee, has warned that he remains so dissatisfied with the FCC's recent performance that he is planning legislation both to restructure the agency and to modify sections of the 1996 Act.

"Reinventing government is a trendy topic these days, and I can think of no more worthy object of reinvention than the FCC," he warns.

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CANADA • By Edward Alden in Toronto

Newcomers peck for market share

Battleground moves to local market as number portability hurdle falls

For the Canadian telecommunications industry, 1998 has been a year of enormous change — and there is no sign of this pattern slowing in the short term.

It was early in the year when news first surfaced of Telus, the Alberta telephone company that is Canada's third-largest carrier, negotiating to buy a two-thirds stake in AT&T Canada Long Distance, then the largest of the new long-distance companies competing with the traditional monopolies.

While the deal, rumoured to be worth C\$1bn, fell apart, the mere fact that Telus was in such talks showed that the rules of the game had forever changed in Canadian telecommunications.

Telus is part of the 11-member Stentor alliance of provincial telephone companies, formed more than 65 years ago to manage the companies' long-distance networks. A Telus-AT&T deal would have blown a hole in the alliance, and was likely to cause Canada's biggest phone company, Bell Canada, to end the arrangement. This would have sparked an all-out war for market share amongst the once-cozy monopoly companies.

Some observers would say the war is already here. Since Canada deregulated the long-distance business in 1992, alternative carriers have been pecking away at the market share of the traditional monopolies. In the last two years, Stentor's share of the long-distance voice market has dropped from 75 per cent to less than 65 per cent.

The Stentor companies have already agreed to loosen their alliance considerably, announcing earlier

this month that they would disband all but the network management arrangements. This would appear to open the door to direct long-distance competition among the alliance partners.

Call-Net Enterprises, which sells long-distance services under the Sprint Canada name, launched a more direct challenge in April when it announced a C\$1.6bn hostile bid for Fono-rola, a Montreal-based long-distance carrier with a strong presence in the large corporate market and with significant sales directly to other carriers.

The deal, which ultimately cost Call-Net C\$1.8bn, gives the new company almost 30 per cent of the long-distance market and makes it the largest challenger to the Stentor companies.

The next battleground is the local market. Canada's

regulatory agency removed the last tall hurdle to local competition in July when it released interim rules for number portability, which will allow customers to keep their telephone numbers even if they move to a new supplier. Number portability is seen as essential for creating genuine local competition.

Metronet Communications, the Calgary-based upstart, announced its determination to take on the giants earlier this year by buying competitor Rogers Telecom for C\$1bn. The purchase gives Metronet its own separate local network in eight leading Canadian cities, with a goal of having 15 to 20 cities wired by 2000.

Until now the battles have mostly been based on price. Sprint Canada triggered the price war in February 1997 by offering a 15-cent per min-

ute flat rate for off-peak calls anywhere in Canada; AT&T went one better by offering 10 cents a minute a year ago. That was matched this summer by Sprint and finally by Bell Canada, Canada's largest telephone company, which controls the local market in the two largest provinces of Ontario and Quebec.

But analysts and industry insiders say that what is shaping up for the future is a battle in which a smaller number of companies will compete to provide customers the entire array of bundled services, including internet, fax, voice and other data services.

"Companies will go after customers by price and then try to retain them through bundling, reward programmes and other incentives," says Michael McTaggart, senior principal with American Management Systems Canada.

"Jim Meenan, president of AT&T Canada Enterprises, says: 'That's our strategy in Canada. Customers want one-stop shopping for all their needs. It's those companies that can weave together partnerships, alliances and joint ventures that will win the customers.'"

For AT&T, the collapse of the talks with Telus means the biggest hole in the company's strategy is lack of access to the local market. But Mr Meenan says the company is exploring innovative ways to enter that market, including alliance with utility companies or cable companies that have direct access to local customers.

Craig Young, president and chief executive of Metronet, says his company is

already positioned to offer a full array of bundled services, including long-distance through alliance arrangements, in the core business areas of most of Canada's main cities.

Mr Young says the likely collapse of the Stentor alliance will open huge new wholesale opportunities for a company such as Metronet. If provincial carriers such as Telus or BC Telecom in Canada's westernmost province are forced to compete for national traffic against Bell Canada, they will likely want access to Metronet's network in the main cities.

"It could open up a nice business," he says.

Juri Koor, president of Call-Net Enterprises, says Sprint Canada will be in the local business on a regional basis by next year. Sprint, rather than building its own local network, is relying on hook-ups to existing networks, which would allow it to service small and medium-sized business and residential customers rather than just the large office buildings targeted by Metronet.

But Mr Koor says some regulatory barriers still hamper that wider access, and that local number portability is still not set up to handle the kind of volume his company wants to do.

"Our approach into the local market is exactly the same as it was in long-distance in terms of strategy," he says. "We'll install switches, and we are installing switches right now, then lease the fibre."

Sprint will build separate lines for local access only where there is economic justification, he says.

With all its competitors scratching for market share,

Bell Canada — with 7m customers in its core markets of Quebec and Ontario — is not standing by idly. Jean Monty, president and chief executive of Bell Canada Enterprises, says the company is in the midst of the most sweeping transition in its history.

Mr Monty says the structure of the Stentor alliance, designed to preserve each of the provincial monopolies, "does not meet today's environment, and has to change drastically". Bell is increasingly looking to become a national competitor by, for instance, constructing its own national broadband network. It is creating a new company to provide internet and other data services for business over high-capacity fibre lines across the country. Bell's Sympatico division is already the largest internet provider in the country.

Mr Monty says that Bell Canada is better-positioned than any of its competitors to offer bundled services. For instance, the company is developing a bundled platform for residential users, starting with a pilot in the Ottawa region, that will offer everything from wired and wireless voice to internet and satellite entertainment.

What everyone agrees is that, with old monopolies breaking up, mergers and alliances reshaping the industry and regulatory barriers disappearing, the telecoms business in Canada is going to get more chaotic. And, in what could be a slogan for the industry, Mr Koor of Call-Net says such chaos is just fine "as long as you're nimble enough to take advantage of it".



Juri Koor (left), president of Call-Net Enterprises, and James Meenan, of AT&T Canada Enterprises



PROFILE Northern Telecom

Quick entry rings some alarm bells

When Northern Telecom announced earlier this year it would acquire Bay Networks, the San Francisco data networking company, for US\$9.1bn, Nortel's shareholders ran for cover.

The price of shares in Canada's largest company, which accounts for more than 4 per cent of the Toronto stock market index, plunged nearly 15 per cent and has not recovered.

John Roth, president and chief executive officer of Nortel, wishes investors had reacted a little more favourably to the deal. "It was a bigger hit than we'd anticipated," he acknowledges.

But Mr Roth says his company, the world's sixth largest manufacturer of telecommunications equipment, had little choice. "It was the best available from the point of view of what Nortel needed."

What Nortel needed was quick access to the technology and expertise to develop data networks for internet traffic.

Like most of the world's large telecom equipment manufacturers, Nortel believes its future lies not in its traditional bread and butter voice traffic but in the rapidly growing demand for data transmission.

Bay Networks, a maker of high-speed routers used to switch internet traffic, was one of a handful of world leaders in providing new data technologies to large companies, and the best available for sale, says Mr Roth.

Traditional voice traffic is a mature business, growing at roughly 3 per cent a year; data traffic,

propelled by the explosive growth of the internet, is growing at 30 per cent a year. Nortel estimates the global market for internet-optimised network equipment will grow from about US\$10bn in 1997 to US\$100bn by 2002.

Pure data traffic is already more than half the capacity of the traditional networks, which were designed primarily for voice traffic. In three to five years that figure is expected to be 80 per cent.

"If the telecommunications business is all about growth and you're not in the growth business, you're in serious trouble," says Gurinder Pichan, analyst with HSBC Securities in Toronto.

Mr Roth agrees. He says that Nortel, which has headed since last October, was the first of the large telecom manufacturers — such as Lucent, Alcatel, Ericsson and Siemens — to recognise this transformation and start preparing for it.

He has even coined a catchword, "whatism", to describe what the company is trying to do. Its goal is to bring to the world of data traffic the same instant access, high quality and bombproof reliability that customers expect from their telephones.

The acquisition of Bay Networks, says Mr Roth, was a critical part of meeting that goal.

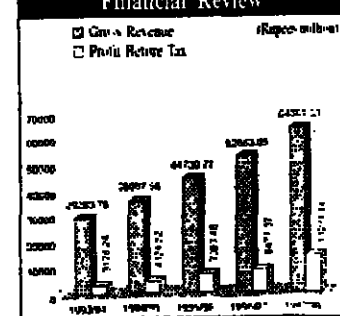
Nortel began as the manufacturing arm of Canada, the country's largest telephone company, and was spun off into an independent company in 1971. From that time on, the acquisition of Bay Networks was the company's

Continued on page 15

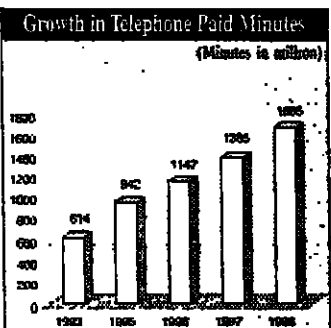
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MARKET REPORT • By Alan Cane

US still outperforming the world

There is a strong belief that strong profits will be made when the sector stabilises

The values of US telecommunications stocks have fallen sharply from the high points seen around the turn of the year but the sector is still managing to outperform the global telecoms market by some 9 or 10 per cent.

The complexity of the US market, however, is indicated by the differing performances of component companies.

Airtouch Communications, one of only a small number of truly international mobile operators, was last week over 30 per cent ahead of its value at the turn of the year.

AT&T, the largest US long-distance operator, slipped almost 5 per cent from its January 1 value, however, while GlobalStar, one of the consortia planning to launch satellite-based mobile phone services, lost more than 50 per cent of its value over the period.

GlobalStar's lustre dimmed sharply this month with the simultaneous loss

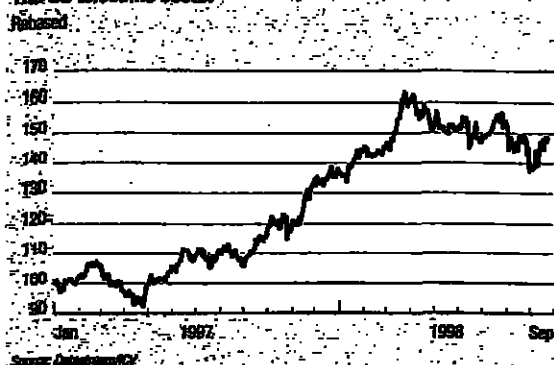
of 12 of its satellites when the Ukrainian-made Zenit rocket which should have carried them into orbit crashed shortly after launch in Kazakhstan.

CIBC Oppenheimer, the New York investment bank, noted the day after the crash: "We continue to recommend GlobalStar Telecom with a strong 'buy' rating. We believe that a market exists for GlobalStar's services. However, as evidenced by (the) failure, deployment risk is very high."

The satellite-based mobile telecoms sector is indeed fraught with dangers. Iridium, the Motorola-led consortium which looked set to win the race to offer global services said earlier this month that it was delaying the launch of the full commercial service by just over a month due to technical difficulties. It will now open for business on November 1.

For many analysts, however, the US's fleet of competitive local exchange carriers (clecs) represent the best value in US telecoms. Clecs, which operate local exchanges in direct competition with the regional Bell operating companies - Baby Bells - saw their share prices hit a peak in July this

The US telecoms sector



year. Since then, they have slipped by some 40 to 45 per cent of their peak value.

Intermedia Communications, for example, was priced at about \$45 in July; the shares have since fallen to about \$28. Nextlink, trading around \$42 in July, is now down about \$28.

Lee Levi, head of high-yield research at Chase Securities in New York, argues that the fall is chiefly technical: "The dynamics of the business of the clecs is exactly the same as it was in July. They have already captured a 3 per cent share of the local telephone market and that share is growing."

This is an attractive sector."

According to Morgan Stanley Dean Witter: "The clecs have continued to demonstrate their success in penetrating the local exchange market by posting strong gains in access lines installed, solid revenue growth and advances to or through break-even at the EBITDA level. It favours ICG, Intermedia, ITC DeltaCom and GST."

The values of US clecs (and their equivalents abroad such as Colt Telecom in the UK) were boosted in the early part of the year when AT&T, looking for a way into local markets, bid

\$11.3m for Teleport, an independent local carrier. Direct local connections to customers are difficult and expensive to establish. Clecs therefore have substantial value to long-distance operators seeking to expand into local markets.

The equation can work in reverse. In January this year, SBC Communications, one of the largest and most acquisitive of the regional Bell operating companies, bid \$4.4bn for Southern New England Telecommunications, a move which strengthens its position in the US north-east but also provides it with a foothold in the long-distance business.

Southern New England's shares trading at \$50 in January, rose to \$71 this month. The high, sometimes extraordinarily high, rating awarded to US telecoms operators reflects a belief that there will be strong profits to be made once the sector has settled down in the wake of the 1996 Telecommunications Act and an effective regulatory regime put in place.

Some of the shine has been taken off by the current market perturbations which have effectively brought an end, temporarily

at any rate, to high-yield or junk bond finance.

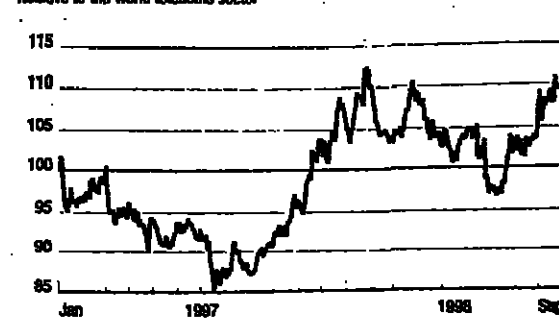
Many of the newer companies in the telecoms sector owe their initial financing almost entirely to the junk bond market. Too small for investment grade finance, they nevertheless have a healthy appetite for capital from the very beginning for research, development and to finance the building of their networks.

Today's market hiatus means that new start-ups may not be able to get the capital they need and existing, heavily leveraged operators may have problems expanding or servicing their debt.

The US mobile telephone market, with the new personal communications services (PCS) exploiting the advantages of digital transmission over the older analogue systems, is in flux. PCS operators are expanding coverage and features, forcing existing incumbent cellular operators to face serious competition for the first time.

Chase's Mr Levi believes PCS operators to be undervalued: "For some incumbents, later 1997 and first quarter 1998 have been particularly painful. For others,

US telecoms sector relative to the world telecoms sector



the increased opportunity for roaming revenues and the higher customer awareness of mobile wireless products has been a boon."

At the other end of the spectrum, long-distance operations, AT&T acquired TCI, the largest US cable television operator. The Yankee Group commented: "AT&T's biggest problem is its relatively fragile position in its main market - long

distance. It needs a local strategy and an internet strategy to fuel its growth...the TCI acquisition happens to be the best possible, if not the most complete, solution." With a joint venture in the offing with British Telecommunications, AT&T is performing well but remains a defensive stock.

WorldCom looks, according to Morgan Stanley Dean Witter, a strong 'buy'.

COMPANY IN THE NEWS: TELEFONICA

Grand design provides a clear focus

Success in Brazil has put the carrier in a strong negotiating position

Juan Villalonga, chairman of Telefonica, heaved a joyful sigh of relief when the Spanish telecoms company snatched the biggest prizes at the end of July in the privatisation of Brazil's vast Telebras network. "From now on there is just one global Latin American operator, and that is Telefonica," he trumpeted.

The purchases vindicated Telefonica's claims to be the carrier in the Spanish-speaking world. "All the others are a long way behind," boasted Mr Villalonga as he surveyed the group's Latin American empire.

The pursuit of this grand design has given the Madrid-based carrier a clearly defined focus. It now delivers by far the largest amount of Latin American call traffic to the rest of the world, and this puts it in a powerful negotiating position with both US and transatlantic carriers.

The Brazil acquisitions had been planned meticulously. During May Telefonica raised \$2.8bn in a one-for-11 rights issue - breaking capital-raising records on the Madrid market - in order to finance the Telebras bids. Some 100 of the carrier's executives were in place in Brazil well ahead of the privatisation to sift through on all 12 of the Brazilian companies being sold.

In addition, Telefonica is set to manage a mobile operator in the state of Bahia that was acquired by Iberdrola, the Spanish power generator, and to hold a large stake in the São Paulo mobile business that was bought by Portugal Telecom. Looking ahead, Telefonica is seeking a 10 per cent shareholding in Embraer, Telebras' long-distance operator that was bought by MCI of the US. Such an equity acquisition would cement a strategic alliance that Telefonica clinched with MCI and WorldCom at the beginning of the year.

The purchases from Telebras represent a quantum leap for Telefonica because they amount to more value and growth potential than all the combined might of other telecoms companies including those in Argentina, Chile and Peru - which are controlled by Telefonica Internacional (Tisa), the group's international division.

Fernando Abril, the group's financial director, reckons that Telebras alone is as big as Telefonica de España, the group's domestic division, was four years ago. The area the carrier covers takes in 34m inhabitants, which is only slightly fewer than Spain's population of 39m, and São Paulo's gross domestic product, which is equal to that of Chile, Peru and Venezuela combined, accounts for 38 per cent of Brazil's GDP.

According to initial forecasts Telefonica reckoned that Telebras would double its number of lines to 11m and quadruple its profits over the next two years. Similar growth in income through to 2000 was estimated for Telebras Celular as cellular subscribers in Rio de Janeiro and Espírito Santo rose from 980,000 to 2.3m.

In arriving at such forecasts Telefonica is travelling along familiar territory, for it has established a reputation for turning around inefficient Latin American operators. It acquired CRT, a regional carrier in Brazil that was not part of the Telebras franchise, in December 1996, and within a year turned round losses of \$14m to a net profit of \$100m. Net profits at Telefonica Peru rose from \$29m in 1994, the year it was purchased, to \$300m in 1996.

Given such a track record, it is ironic that Telefonica's greatest coup should have come virtually on the eve of sustained stock exchange turmoil that hit emerging markets hard. Within a month the biggest blue chip on Madrid's Bolsa saw its share price lose more than 40 per cent of its value.

What Mr Villalonga proclaimed to be proof of Telefonica's strength was viewed by nervous investors as evidence of the group's underlying weakness. He saw Telefonica's dominant position in Latin America as its best asset; they saw it as its worst liability. Instead of basking in the glow of investor appreciation, Mr Villalonga and his team have had to work hard to reassure fund managers that Telefonica's Brazilian adventure makes sound strategic sense.

At the time of the purchases from Telebras, Telefonica said that it expected the acquisitions to dilute earnings by 2 per cent this year, by 3.8 per cent next year, and by 1 per cent in 2000, after which the new units would be earnings enhancing. Mr Abril, the finance director, believes that, in spite of the financial tremors now affecting Latin America, the outlook for earnings per share remains on schedule.

Mr Abril argues that, even in an extreme scenario of regional recession, the Latin American telecoms industry in the region will continue to grow. He says Telefonica is not significantly changing its budgets in the wake of the market turmoil, and that any lower revenues caused by sluggish growth will be offset by an attack on costs.

The logic of this optimistic argument is that telecoms penetration is so low in Latin America, and specifically in Brazil, that it will increase even in the direst economic circumstances. There are around 10 lines per 100 inhabitants in Brazil compared with about 20 in Argentina and Chile and a European average of 50.

There is a waiting list of some 5m lines in the São Paulo area, and Mr Abril argues that even in the event of a sustained economic slow-down there will be still be strong demand for Telebras lines. A telecoms company based in the mature European market could not ask for more.

Tom Burns/Madrid

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